Inc.

The Magazine for Growing Companies

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"As a founder, I can play a little more freely than other CEOs."
—*Kevin Plank*

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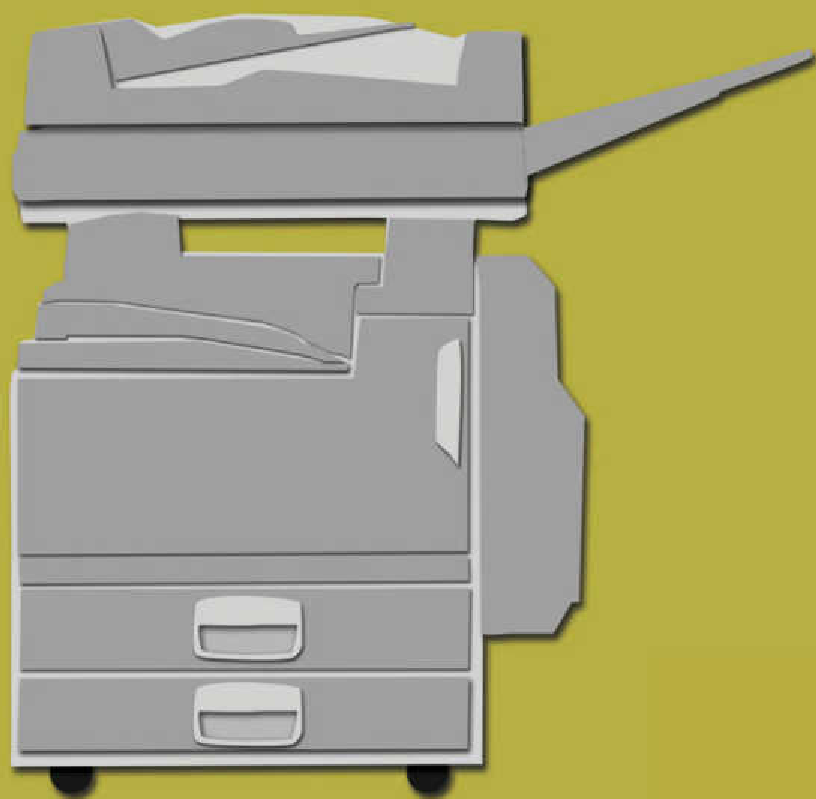


02.16

Contents

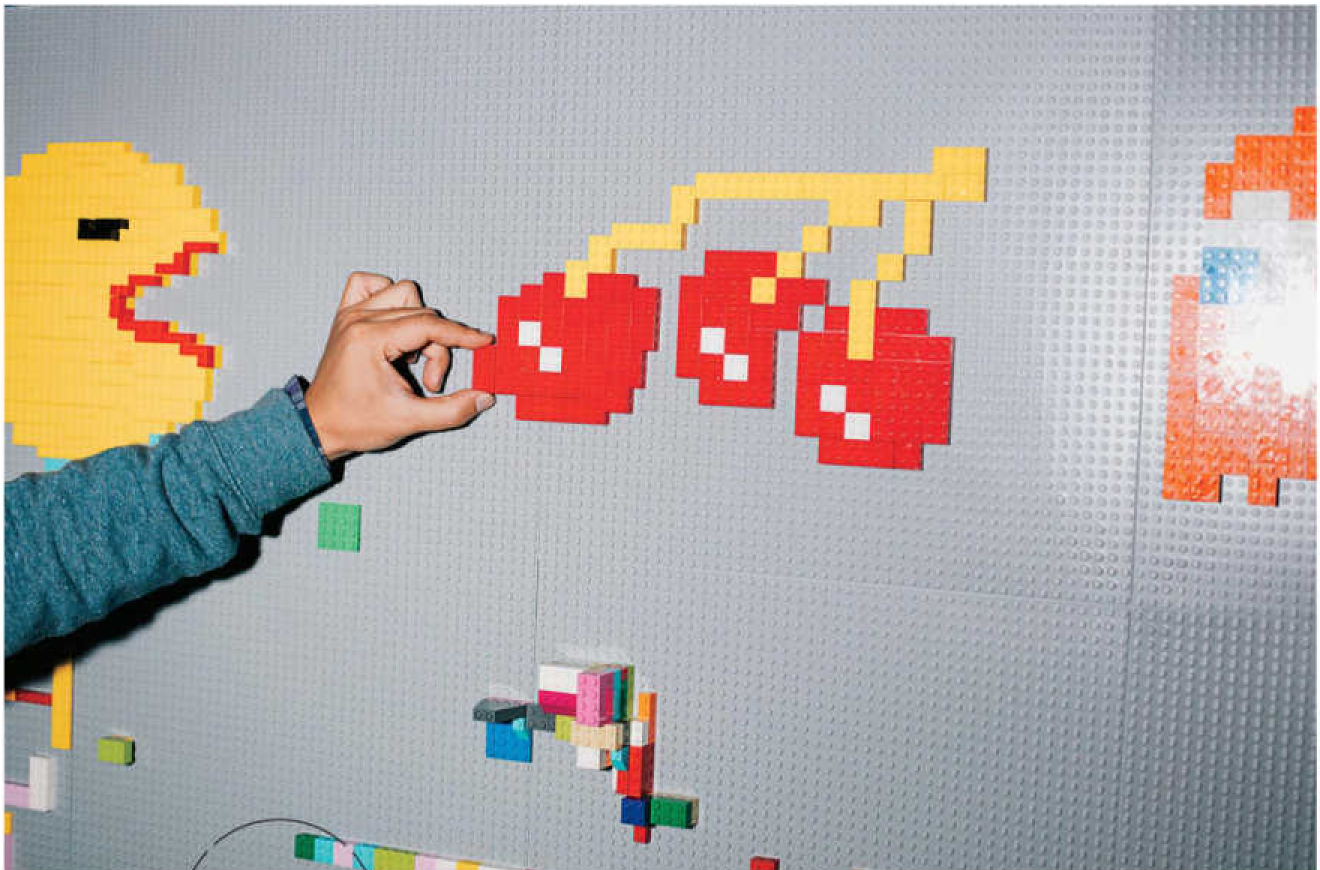
"People in Texas will brag that their cooler is grizzly-proof, even though there's not a grizzly within 1,000 miles."

–ROY SEIDERS (in front), chairman of Yeti, which makes high-end coolers and outdoor gear, with his brother, and co-founder, Ryan

PG. 46

PHOTOGRAPH BY **MICHAEL FRIBERG**

PIECE WORK
At NerdWallet's San Francisco headquarters, employees can play on the "nerd wall."



Features

ON THE COVER KEVIN PLANK, FOUNDER AND CEO OF UNDER ARMOUR, PHOTOGRAPHED IN NEW YORK CITY BY DYLAN COULTER

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CLOCKWISE FROM TOP LEFT: DREW ANTHONY SMITH; SCOTT BAKAL; GETTY; PETER BOHLER

INC.COM/PEOPLE

4 Things to Tell Yourself When the Going Gets Tough

Succeeding in business takes endurance and grit. But Inc.com columnist Amy Morin also suggests some compassionate self-reminders to help you through hard times

1

THIS HAS HAPPENED BEFORE. Remember all those obstacles you faced in the past? You overcame them.

2

FAILURE IS THE PATH TO SUCCESS. Don't shame yourself if you fall short of a goal. Instead, view it as evidence that you're pushing yourself beyond old limits.

3

THIS WON'T MATTER NEARLY AS MUCH IN FIVE YEARS. Are you sweating the small stuff? Keep in mind that, in the future, the issue of the moment probably won't matter very much.

4

I LIVE ACCORDING TO MY VALUES. You can't please everyone, so it's crucial to stick to your beliefs.

Go Beyond the Page You'll find the icon at the left on selected pages throughout this issue. That's your signal to grab your smartphone or tablet and go deeper with the content on those pages. Here's how:

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Stacey Ferreira
Co-founder of AdMoar

ON SCORING FUNDING FROM ICONS LIKE RICHARD BRANSON

"Reach out to people you look up to. Email them, tweet them, Facebook them. Most of the time, they don't say no."

INC.COM/IDEALAB

Laura Weidman Powers
CEO of Code2040

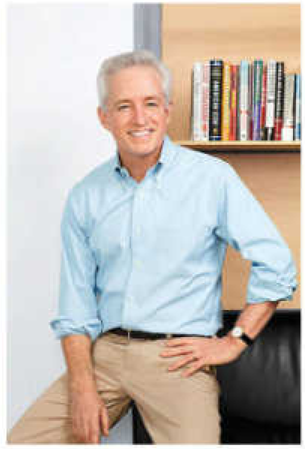
ON FIXING SILICON VALLEY'S DIVERSITY PROBLEM

"It involves thinking and planning, and that only happens when you have people on staff where that's their job."

CLOCKWISE FROM LEFT: JOHN LUND/CORBIS; JOYZEL ACEVEDO; NUSHMIA KHAN

WELCOME

THE VISIONARY THING, REVISED



ONE OF THE MOST APPEALING MYTHS about entrepreneurship, repeated sometimes even at *Inc.*, is that to succeed, you have to be a visionary. You need to be able to see years into the future and disrupt incumbents by getting there first. It's a charming conceit, and it fits well with the heroic image of Steve Jobs, Elon Musk, and so on. However, business doesn't usually work that way.

True foresight is vanishingly rare, as documented by psychologist Philip E. Tetlock, now at Wharton. Tetlock's research, famous in behavioral economics circles, tracked thousands of forecasts by experts over decades and rated them for accuracy (incredibly, no one had done that before). He found that expert forecasts were, on average, no more accurate than random guesswork, and the most famous experts were least accurate of all.

One group of forecasters did better, though, not because of how smart or how well resourced they were, but because of how they thought. Unlike media darlings, who tend to interpret the future through an unwavering set of beliefs and to reduce complex issues to a simple, dramatic story, the more accurate forecasters tend to be less confident that they know how things will turn out. They tend to synthesize many views and are quick to adjust to new information.

While Tetlock's research covered geopolitical and economic predictions, the relevance to business is pretty obvious. Steve Blank and Eric Ries's lean startup philosophy is all about testing theories—and quickly abandoning those that fail. The entrepreneur and VC Randy Komisar, now a partner at Kleiner Perkins, observed that the plans of even talented founders were almost always wrong. He scores "getting to Plan B" not a sign of failure but an essential milestone on the path to success. The visionary thing, in other words, is way less important than other "things." The adaptability thing. The persistence thing. The leadership thing. Or the guts thing.

You can see all this play out dramatically in several key stories in this issue. Roy and Ryan Seiders's creation of the $500 million Yeti brand of outdoor gear was born of a design flaw discovered when Roy was building a better boat. (See "The Yeti Brotherhood," page 46.) In "The Answer Man" (page 62), Nerd-Wallet co-founder Tim Chen, who is self-correcting almost to a fault, saved his business by admitting a crucial error and imposing a wrenching reorganization on his company. Even Kevin Plank, who can lay a better claim to true visionary status than 95 percent of founders, is now betting on a change in direction he never could have predicted when he founded Under Armour in 1995. (See "Under Armour's Big Bet," page 28.)

Imagining that you have to foresee the future to succeed is an unrealistic burden, and one that might only make success harder. The fact is, what people loosely call your vision is really just a hypothesis. You know that. Your mission as founder is to organize—and, if necessary, reorganize—people to test it until you get it right. That may be less heroic than being a visionary, but it's a lot more attainable.

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CLASSIC CHASSIS
Bobby Green in his Old Crow Speed Shop, where he keeps his cars and motorcycles. Clockwise from left: a 1931 Ford roadster, a 1948 Belly Tank racer, and a 1930s-era HAL sprint car.

FUN AT ANY SPEED

CARS AND BARS

Bobby Green evokes bygone eras with his bars. But it's his vintage vehicle collection that really brings the past back to life

Photographs by PETER BOHLER

“I could build a car, but I’d much rather restore something that has a story.”

—BOBBY GREEN, nightlife entrepreneur and co-founder, 1933 Group

HANDS-ON
Green, amid the period details he’s assembled at his garage. From left: His “Old Crow,” in which he’s reached 168 mph; opening the carburetor on the 1953 Buick Nailhead engine that powers his Ford roadster.

BOBBY GREEN became obsessed with classic cars after leaving his native Oklahoma for L.A., where he sped down the wide boulevards in a 1957 Chevy.

“I’d see all these rad Cadillacs cruising,” Green, 44, says. “Los Angeles injected something into me.”

When the time came to replace his ride, he got a ’54 Ford, thus beginning a lifetime of finding, repairing, and racing collectible cars. Last fall, at the annual Race of Gentlemen in Wildwood, New Jersey—an event he co-owns and produces—Green drove a 1922 Whippet Speedster. He recently acquired a sleek, silver HAL dual overhead cam sprint car from the 1930s. “The original paint is still on it,” he says.

A co-founder of the nightlife company 1933 Group (named in honor of the year Prohibition was repealed), Green creates bars that also hark back to America’s past, like Sassafras, a Savannah, Georgia, townhouse he turned into a jazz-era cocktail lounge and plunked down in the middle of Hollywood. He splits his time between 1933 ventures—its eight bars took in $13 million last year—and his Old Crow Speed Shop, where he stores more than two dozen cars and motorcycles and a trove of automotive memorabilia. Vintage carburetors protrude from walls, car club jackets from as far back as the 1930s hang near the window. How does he get this stuff?

“A lot of networking,” he says. Before computers, “it was swap meets, or you’d go to the local cruise night, like Friday night at Bob’s Big Boy. You get to know Jay Leno. You know all the car people.”

Green’s dedication is such that he favors vintage-style clothing—newsboy caps, three-button vests—and commutes in his restored cars unless bad weather forces him into his new Chevy truck, which includes features like air conditioning and a roof.

“This is the opposite of practicality,” Green says, starting up a cherry-red 1931 Ford roadster. “This is incessant freedom.” —SHEILA MARIKAR

Start.
Scale.
Thrive.

Launch

Unlocking the power of pen and paper **PG.20** Best industries for starting a business **PG.24**

"Winning is a part of our culture—it's who we are. And culture is formed on habits."

—KEVIN PLANK, founder of the athletic performance-apparel company Under Armour

PG. 28

WORKERS' PLAYTIME Under Armour staffers during a lunchtime workout at a fitness area outside the company's Baltimore headquarters.

PHOTOGRAPH BY **JARED SOARES**

TIP SHEET PRODUCTIVITY

PAPER CHASE

It's cheap and portable, it has unlimited battery life, and it might just make your brain, and your employees' brains, work better

AT WINTER SESSION, a bag and wallet maker in Denver, employees not only craft many products manually; they are also encouraged to keep handwritten notes about manufacturing processes. Co-founder Tanya Fleisher says that "writing things down helps you internalize and process the information on a visceral level," yielding better-quality production.

The brain reacts differently—research says better—when you use paper and not a computer. Studies show that students' performance on tests improves when they take notes on paper instead of laptops, and kids who learn to write by hand are better at recognizing letters than those who learn to write by typing. Other research shows that working on a computer, as opposed to paper, saps concentration and willpower. Cal Newport, an author and professor at Georgetown University, argues in his new book, *Deep Work*, that achieving ultra-focus on a single task is a key to boosting productivity, and he's convinced that working on paper is a great way to do that. (To arrive at the mathematical theorems that make up the bulk of his research, he writes by hand in a notebook.)

While there's no scientific evidence quantifying any productivity benefits of paper over a computer, companies that integrate paper into their workflow report positive results, from fewer meetings to better, more thoughtful ideas. This may explain the recent paper boom. Doane Paper, a notebook company in Kansas City, Missouri, says its sales have grown 30 percent in 2015 over 2014. Tim Jacobsen, founder of Word Notebooks, reports an 844 percent increase in sales over the same period. Founders who like handwriting's benefits share their tips for getting your team to unlock the power of paper.
—SAKI KNAFO

1 MAKE IT FUN

To entice employees to write by hand, work the "hot newness" angle. "I buy notebooks and give them to employees whenever I can," says co-founder Pasquale D'Silva of Keezy, a music app developer. Working on paper makes his employees "more focused," he says. "If you try to do all the problem-solving at a computer, you can become precious about your ideas. If you draw on paper, you have this low-fi prototype. On paper, anything goes." D'Silva finds that employees' paper-based ideas frequently "end up being more thoughtful" than those built on a computer.

The Jargonator

Swatting the buzzwords of business

By **BEN SCHOTT**

CYBER ATTACK KILL CHAIN / • noun.
The "kill chain" represents the "seven steps of online crime"—from recon and lure to data theft. It's a bit like the "seven stages of grief" with the added bonus of having your bank account looted.
Source: Lockheed Martin/OZY

PHUBBING / • verb.
"Partner phone snubbing"—when incessant cell-phone checking damages romantic relationships. (It doesn't help when your partner is incessantly checking Tinder.)
Source: Baylor University

ILLUSTRATIONS: POLLY BECKER (3)

2 TAKE BABY STEPS

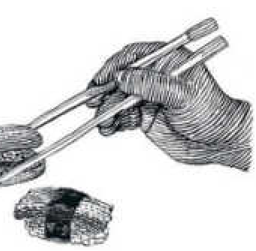
Zach Sims co-founded Codecademy to teach digital skills, but he's been encouraging his team to use paper more often, because he feels that technology can be distracting. Sims urges employees to use paper instead of laptops in meetings. If someone opens a laptop, he asks the person to explain why. The result has been shorter meetings, because "paper forces you to be present with the people in the room and your thoughts," he says. "When people aren't messing around, they're more engaged and finish faster."

3 BE PATIENT

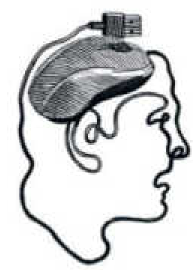
Gadi Amit, principal designer and owner of NewDealDesign, the San Francisco firm that helped design Fitbit, warns that getting some employees to embrace paper can take persistence. "Young designers are being trained to believe in the supremacy of computers," he says. He urges his employees to work on paper at least once a day. He says the messiness of writing and drawing by hand forces designers to break away from preconceptions. Once, when employees were sketching ideas for a wearable health device, Amit says he noticed a doodle in the corner of a sketch page. That doodle ended up as the basis for the winning concept.

PHOTOGRAPH BY **ERIC HELGAS**

NEXT-PATS / • noun.
Apparently, Americans who live and work overseas nowadays have more flexible, entrepreneurial, and open mindsets than expats of old. This means venturing outside your Hilton, and ordering food other than a club sandwich. *Source: TransferWise*



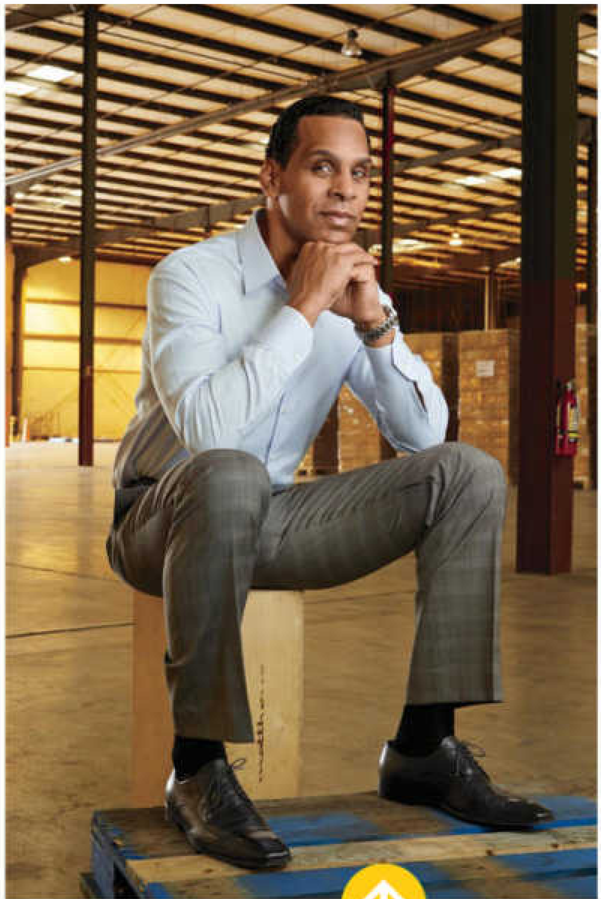
HALL OF MIRRORS / • noun.
Ensnaring cybercriminals by planting false data across a network so that hackers don't know what's real or fake. Presumably, this is modeled on the world of online dating. *Source: Illusive Networks*



DIGITAL DEMENTIA / • noun.
"The cognitive challenges and attention problems that result from overuse of digital technology." You know, when you find yourself in a chatroom and can't remember why you came in. *Source: UCLA*

From Moving a Football to Moving Freight Worldwide

FORMER NFL TIGHT END Tony McGee, 44, founded the Orlando-based HNM Enterprises in 2004, the year he retired from pro football. He initially focused on Orlando real estate investments, but worked his way into the logistics industry after a conversation at a networking event introduced him to its lucrative opportunities. With six logistics pros, McGee launched HNM Global Logistics in 2011. With his company now included among the Inc. 5000, he shares some pages from his playbook. —ALIX STUART



FIND FOCUS

McGee left the NFL with investable capital and a famous name, but lacked business experience and focus. After bouncing from real estate to roofing and other construction ventures, the former Cincinnati Bengal recalled a key lesson he had learned in football: Surround yourself with talent. "You look at some of the great coaches—Bill Walsh of the San Francisco 49ers, Mike Holmgren of the Green Bay Packers, Bill Belichick of the New England Patriots—and they all have top-notch staffs," he says. After McGee learned how big logistics contracts could be, he realized he had the necessary ingredients for success despite his limited experience. And through previous work, he also knew a team of logistics experts yearning to break away from their big-company employer. McGee did his market research, "but the biggest thing is that I had a team of competent people with a huge amount of experience," he says.

TAKEAWAY: Find and partner with people who are strong where you're weak—and vice versa.

PLAY THE LONG GAME

Having co-founders with experience helped McGee break into the logistics industry, but the fledgling company still faced a problem: Established players like Expeditors and Panalpina could always offer clients lower rates because their scale afforded them better deals with freight carriers. McGee began by winning one-off engagements—as opposed to the longer-term contracts that most logistics companies seek. Many of those opportunities arose when HNM's competitors failed. The key to succeeding in an industry that has more moving pieces than a clock? "There are a lot of things out of our control, but what we can control is the flow of information," McGee says. "We stay late, we work weekends, and we stay in constant touch with our customers. If they have to call and ask, 'Where's my shipment?' we've failed." His team had expertise moving freight, but sales had been mostly through referrals. They hadn't pursued large client contracts, which can take up to two years to close. Two years ago, after the company gained some traction with smaller gigs, McGee hired two salespeople to take a more aggressive approach to winning multiyear contracts. That's led to a virtuous cycle of more opportunities to bid, more wins, and, as a result, more buying power with the carriers and a boost to the company's profits.

TAKEAWAY: A reactive sales strategy can open the door, but don't expect it to sustain growth.

BUILD A DEEP BENCH

Ultimately, for HNM to become the $100 million company that McGee envisions, it has to be able to add employees as it wins clients. "You never want to bring on new clients and not be able to service them," McGee says. But finding the right applicants is proving to be more difficult than he expected. "Logistics is a huge sector, but it's not very sexy," he admits. "Who says, 'I want to manage a warehouse when I grow up'?" To tap into broader talent networks at lower cost, HNM is now working with work-force development agency CareerSource Central Florida, which offers a government-subsidized, on-the-job training program. "It's a great way to introduce the work force to the supply chain industry," McGee says. Last year, the program allowed HNM to bring on three interns at no cost for their first three months. McGee hopes to bring in—and ultimately hire—more interns this year to reach his goal of five new full-time employees.

TAKEAWAY: McGee likens his challenge to that of a football coach. "It's not enough to have just one starting quarterback," he says. "You have to constantly be reloading and ready to replace."

HNM GLOBAL LOGISTICS

Tony McGee built his logistics company after an 11-year NFL career. His business has racked up stats that would make any star proud.

No. 756
2015 INC. 5000 RANKING

600%
3-YEAR GROWTH RATE*

$9.2M
2014 REVENUE

2011
FOUNDED

25
EMPLOYEES

12
JOBS ADDED*

** From 2011 through 2014.*

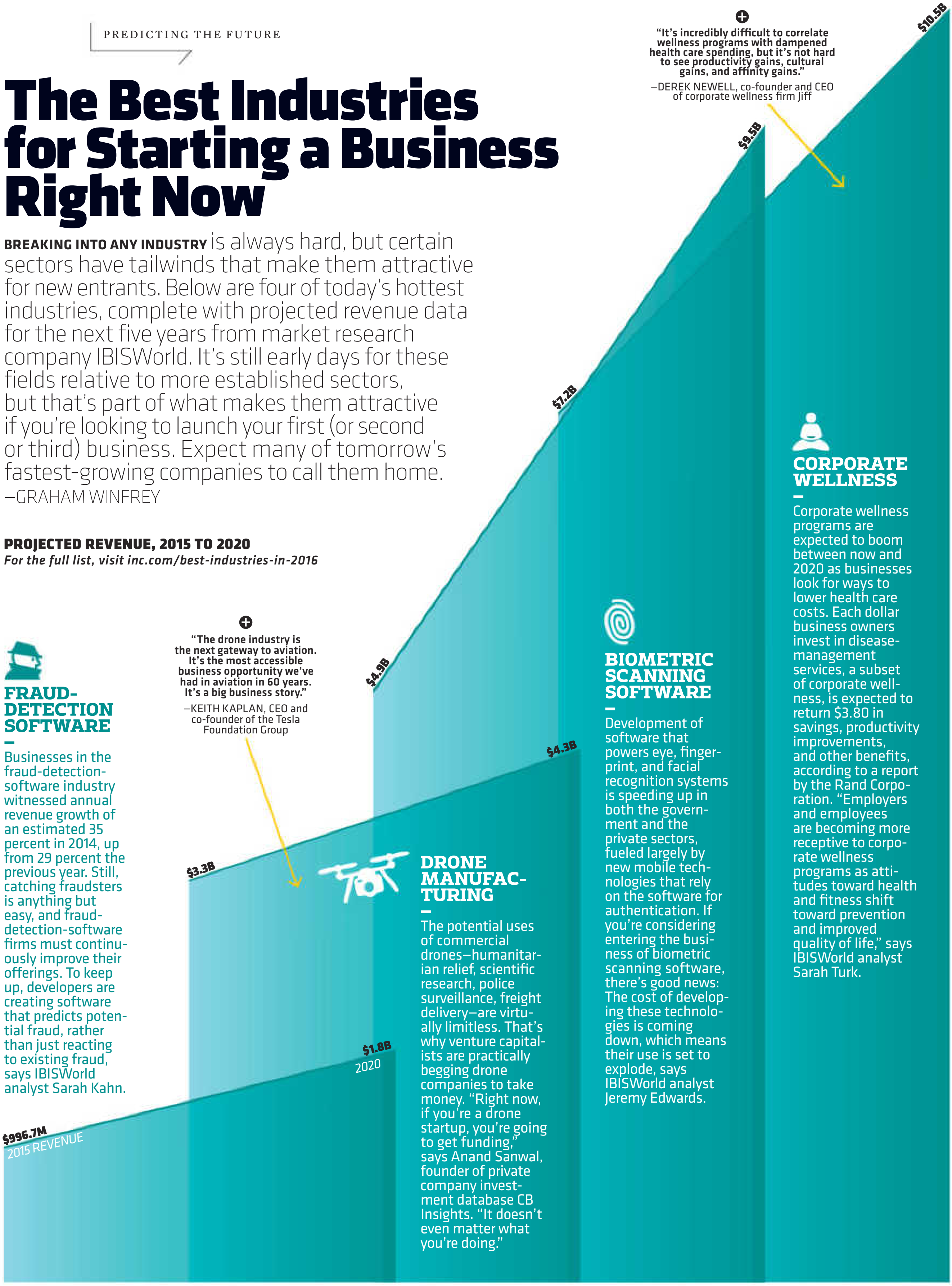
BEN VAN HOOK/GETTY


SERIOUSLY FEELING SOME
Love
For
@SLACKHQ
Right now, i mean
TATTOO LEVEL LOVE

The Best Industries for Starting a Business Right Now

BREAKING INTO ANY INDUSTRY is always hard, but certain sectors have tailwinds that make them attractive for new entrants. Below are four of today's hottest industries, complete with projected revenue data for the next five years from market research company IBISWorld. It's still early days for these fields relative to more established sectors, but that's part of what makes them attractive if you're looking to launch your first (or second or third) business. Expect many of tomorrow's fastest-growing companies to call them home.
—GRAHAM WINFREY

PROJECTED REVENUE, 2015 TO 2020
For the full list, visit inc.com/best-industries-in-2016



FRAUD-DETECTION SOFTWARE

Businesses in the fraud-detection-software industry witnessed annual revenue growth of an estimated 35 percent in 2014, up from 29 percent the previous year. Still, catching fraudsters is anything but easy, and fraud-detection-software firms must continuously improve their offerings. To keep up, developers are creating software that predicts potential fraud, rather than just reacting to existing fraud, says IBISWorld analyst Sarah Kahn.

"The drone industry is the next gateway to aviation. It's the most accessible business opportunity we've had in aviation in 60 years. It's a big business story."
—KEITH KAPLAN, CEO and co-founder of the Tesla Foundation Group

DRONE MANUFACTURING

The potential uses of commercial drones—humanitarian relief, scientific research, police surveillance, freight delivery—are virtually limitless. That's why venture capitalists are practically begging drone companies to take money. "Right now, if you're a drone startup, you're going to get funding," says Anand Sanwal, founder of private company investment database CB Insights. "It doesn't even matter what you're doing."

BIOMETRIC SCANNING SOFTWARE

Development of software that powers eye, fingerprint, and facial recognition systems is speeding up in both the government and the private sectors, fueled largely by new mobile technologies that rely on the software for authentication. If you're considering entering the business of biometric scanning software, there's good news: The cost of developing these technologies is coming down, which means their use is set to explode, says IBISWorld analyst Jeremy Edwards.

"It's incredibly difficult to correlate wellness programs with dampened health care spending, but it's not hard to see productivity gains, cultural gains, and affinity gains."
—DEREK NEWELL, co-founder and CEO of corporate wellness firm Jiff

CORPORATE WELLNESS

Corporate wellness programs are expected to boom between now and 2020 as businesses look for ways to lower health care costs. Each dollar business owners invest in disease-management services, a subset of corporate wellness, is expected to return $3.80 in savings, productivity improvements, and other benefits, according to a report by the Rand Corporation. "Employers and employees are becoming more receptive to corporate wellness programs as attitudes toward health and fitness shift toward prevention and improved quality of life," says IBISWorld analyst Sarah Turk.

ICONS FROM LEFT: ICONATHON; JORIS HOOGENDOORN; ROBERTO CHIAVERI; BORIS MATUSOVSKI

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ASK MARCUS LEMONIS

HOW DO I FIND THE RIGHT TALENT?

SPIRIT MONKEY, WHICH LAUNCHED in 2011 in San Antonio, makes colorful patches for elementary school students. In 2014, the business brought in $3 million in revenue. Founder Lisa deBonoPaula says her employees are not as efficient as she'd like them to be, so she asks Marcus Lemonis, the investor, entrepreneur, and star of CNBC's hit series *The Profit*, for advice on how to hire. —ZOË HENRY

MARCUS LEMONIS: Tell me about the business.
LISA DEBONOPAULA: We make embroidered patches that schools and other organizations use to reward their teams. We started with four designs, and now we have more than 3,500. And we have five full-time employees and three part-time employees.

How did you come up with the idea?
I was a PTA mom at a school in Texas, and the principal was looking for an alternative to food rewards. I started making patches, and soon the children wanted to collect them all.

So what's your question?
Often my employees can't keep up with my fast pace. I find myself doing their work. I've already let two people go. How do I find the right talent?

What sorts of tasks are you assigning them?
Operational tasks, like invoicing.

Would anybody think that you're being unreasonable [in your expectations]?
I don't think so. If I can physically do something, I don't understand why other people can't.

PATCHES OF HONOR DeBonoPaula in her San Antonio facility.

I think it's unrealistic to assume anybody else is ever going to be you. And it's unfair to your staff. Just because you have a high level of efficiency in those specific jobs doesn't make them inept. Are you starting the process in the right way? Are you training them right? You're used to being the jack-of-all-trades. But that's not going to work long term.
I think I'm good at what I do, but I also think there are people better than me.

It doesn't sound like you think that. Inventors and entrepreneurs aren't always great managers. It sounds like you've reached the point at which you need an operations manager—somebody to run the staff. The question is, are you willing to let someone else do that job?
Suggestions for finding the right person?

You have to come to grips first. If I interviewed your staff, they would say that you micromanage them. You have some reflecting to do before you hire.

Photograph by **DREW ANTHONY SMITH**

WAS MARCUS RIGHT?

After meeting with Lemonis in October, deBonoPaula has decided to make some changes.

"It was not easy to hear the word *micromanager*," she says. "He was right, but I'd never been called that before."

Moving forward, deBonoPaula plans to work with a local staffing agency to find and hire an operations manager. She also plans to spend more time training her employees: "I think we did a terrible job on the front end—just taking a résumé, talking to people in a short little interview, and assuming they could do everything."

However, she anticipates that letting go will not be easy. "I still think it's hard to do what he said. I don't think at the snap of a finger I'm going to be able to find the person who can learn everything and know it all," she says.

MARCO GROB


THIS PICK NEARLY SHUT DOWN A DALLAS BAR.
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So you can own it.
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A former college football player turned sportswear entrepreneur.

KEVIN PLANK BUILT UNDER ARMOUR INTO A $4 BILLION BEHEMOTH. HE'S JUST SPENT ALMOST $1 BILLION TO GET INTO AN ENTIRELY NEW BUSINESS. **CAN THIS DECADE'S MOST UNLIKELY TECH STARTUP BEAT NIKE?**

That's a lotta formfitting workout gear.

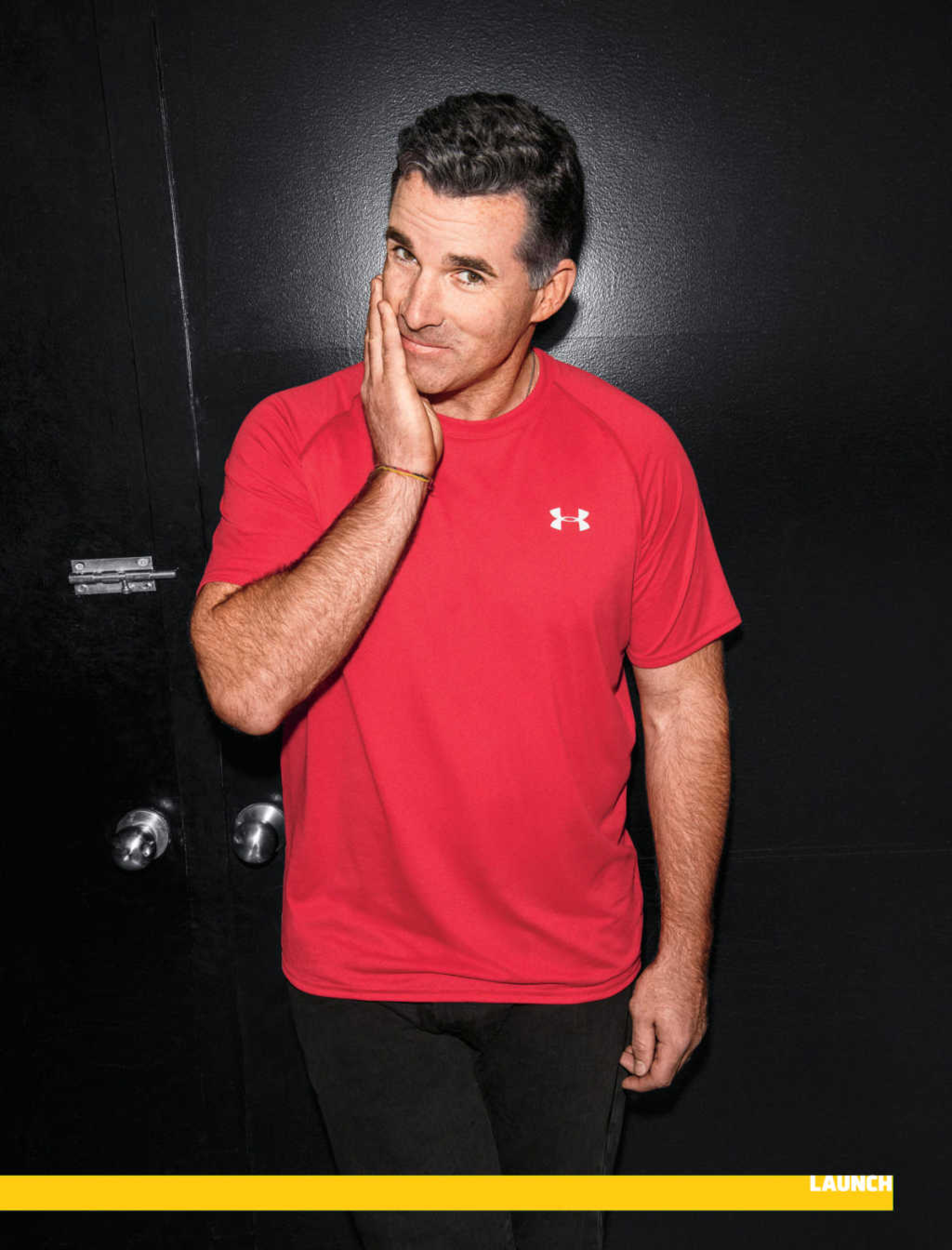
... by buying fitness and nutrition app companies—and then investing significant sums in them.

Plank's betting fitness trackers and apps will revolutionize his company.

BY TOM FOSTER

PHOTOGRAPH BY **DYLAN COULTER**

A tall order. But don't underestimate what this guy and his whiteboards can accomplish.



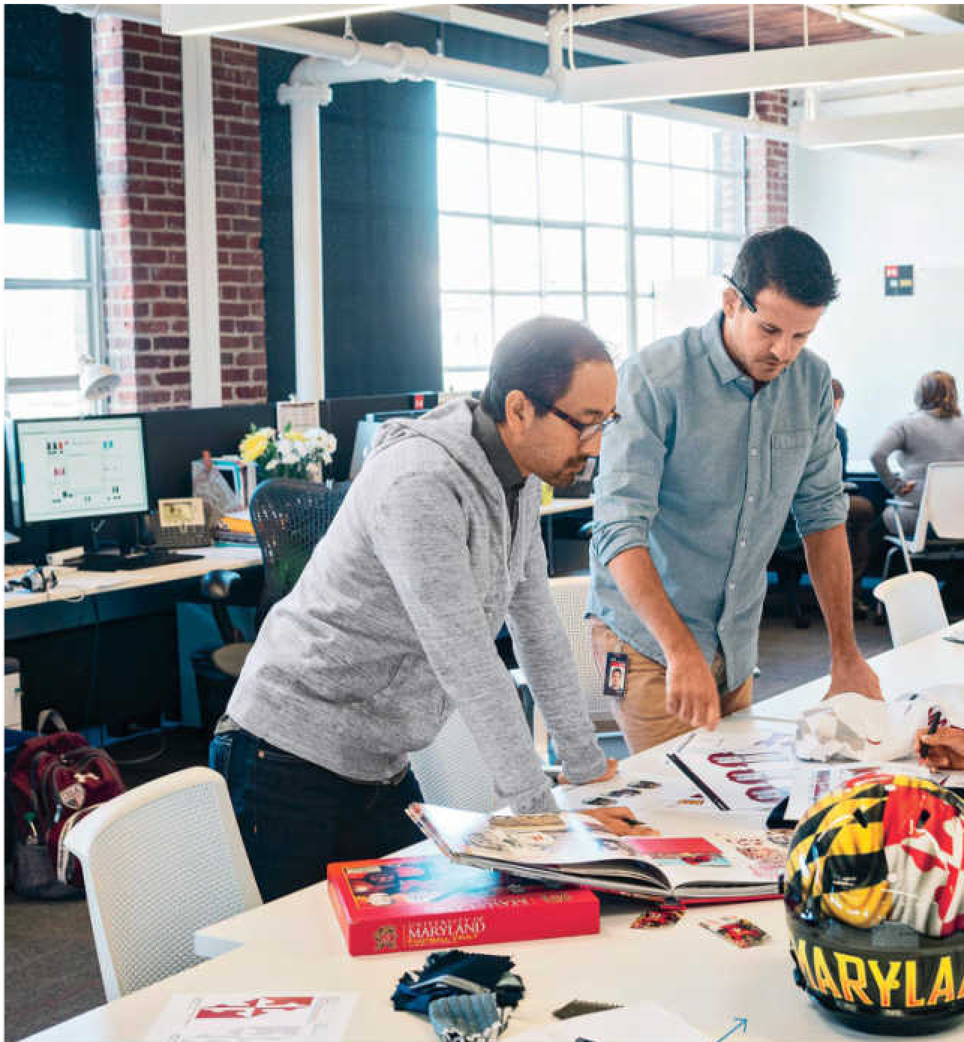


TABLE TALK Under Armour team-sports designers, discussing concepts for uniforms and performance gear they're making for Plank's alma mater, the University of Maryland.

"Have you seen Kevin's whiteboards?"

If you spend any time at Under Armour headquarters, you'll hear that question again and again. Founder and CEO Kevin Plank really likes whiteboards, and his favorite use for them is to write out leadership maxims for his team. Inside and outside his office, whole walls of floor-to-ceiling whiteboards contain dozens of curt principles he's scrawled over the years: *Expedite the inevitable. Perfection is the enemy of innovation. Respect everyone, fear no one.*

These commandments are meant not as simple inspiration or hard rules, he says, but together make up a system of "guardrails" that allow everyone under him to operate as entrepreneurs by channeling his thinking. The Plank principles are drilled into new employees during a weeklong orientation, and they're painted all over the hallways at company headquarters, a former Procter & Gamble factory on the Baltimore waterfront. *Think like an entrepreneur. Create like an innovator. Perform like a teammate.*

Plank has the affect and intensity of a head coach—direct eye contact, military analogies, the air of someone you do not want to disappoint. "Winning is a part of our culture—it's who we are," he says in his lofty office overlooking the harbor. (The only artwork behind his desk: a giant UA logo, its letters stacked to evoke arms raised in victory.) "And culture is formed on habits." Perhaps the most important guardrail, and the company's official mission, is seeking to "make all athletes better." It has long equaled thinking about clothes as high-performance gear, but recently it's taken on a big new meaning.

Over the past two years, Under Armour has spent close to $1 billion buying and investing in three leading makers of

activity- and diet-tracking mobile apps. By doing so, the company has amassed the world's largest digital health-and-fitness community, with 150 million users. Plank envisions all of those users, and their metrics, as a big data engine to drive everything from product development to merchandising to marketing. Many observers, though, balked at the $710 million cost of the acquisitions, questioning whether Under Armour could quickly produce any return on investment—two of the three companies were unprofitable—let alone succeed in a space that shares little with making shirts and shoes. Longtime staffers worried the moves would crimp company performance, affect bonuses, or divert focus from the core business. Plank spent more hours than he cares to count, including a large chunk of his winter vacation last year, in one-on-one conversations to persuade them otherwise. "It was important," he says, "that this not just be my decision."

Plank likes to say that the key to Under Armour's success is that he never focused on all the reasons it couldn't happen. A former Division 1 college football player, Plank famously bootstrapped Under Armour's launch in 1995 armed with one simple insight: The cotton undershirts football players wore under their pads slowed them down when they became soaked with sweat. After prototyping a moisture-wicking, formfitting alternative—made of fabric for women's undergarments—and testing it on ex-teammates, Plank set up shop in his grandmother's basement and, just before he went broke, scored his first big sale, to Georgia Tech. The company went on to create a whole new market for performance apparel, IPO'd in 2005, and now sponsors some of the world's greatest athletes, including Jordan Spieth, Stephen Curry, and Lindsey Vonn.

Today, Under Armour has 13,500 employees around the world and nearly $4 billion in revenue. But Plank is still every bit the entrepreneur, chasing audacious dreams—chief among them overtaking Nike as the world's largest sportswear maker. Under Armour leapfrogged the longtime number two, Adidas, in 2014, but Nike remains far larger, with more than $30 billion in revenue in 2015. Which is part of why Plank wants to move so aggressively. Nike has about a fifth as many users on its Nike+ platform as Under Armour does on its apps, and in 2014 the shoe giant shut down its FuelBand fitness-tracker business.

The real work is only beginning, though, as Plank has adopted the kind of world-changing ambitions more common to a Google or Facebook. He envisions that Under Armour Connected Fitness will "fundamentally affect global health." This month—doubters be damned—the company will start selling a pair of biometric fitness devices and a smart scale made in partnership with the Taiwanese smartphone company HTC. The move will put Plank in direct competition with Fitbit and Apple in the fast-growing wearables market. It's a bold, characteristically Plankian bet—and a "very risky" one, says Morningstar retail analyst Paul Swinand. (Morningstar and *Inc.* are both owned by Joe Mansueto.)

"Under Armour has been a phenomenal success story," Swinand says. Its stock has risen steadily—almost 2,000 percent in the decade since its IPO. "But when you're hitting a home run every quarter on the core apparel business, why mess around with a moon shot?"

Plank rarely admits to much uncertainty or doubt, so it's telling that he echoes Swinand in describing Connected Fitness's ambitions as a "moon shot." But another of his whiteboard sayings comes to mind, this one courtesy of his friend and former U.S. Special Operations commander Admiral Eric Olson: *Nobody ever won a horserace by yelling "Whoa!"*

ROBIN THURSTON, co-founder and then CEO of Austin-based app maker MapMyFitness, got his first taste of Plank's high-speed force-of-will approach when the Under Armour founder cold-called him in July 2013. Plank explained that he loved Thurston's app MapMyRun. "I run five miles three times a week, I log everything, I look up routes when I travel," Plank began. "What are you doing with the company?"

Thurston replied that he was about to raise more venture capital to pursue ambitious expansion plans: The company had bought several hundred domains based on every physical activity, and planned to launch new products for each. Thurston and his investors saw MapMyFitness as poised to become the leading digital health-and-fitness network.

"Don't do that," Plank shot back. "Come talk to me instead."

A couple of weeks later, Plank and three key lieutenants showed up early at the New York City offices of Allen & Company, where Thurston and his team were huddling with their bankers. The MapMyFitness team got about 20 minutes into a detailed PowerPoint presentation when Plank interrupted. "This is awesome," he said, "but I want to stop you and go talk to Robin myself for a few minutes"—without any bankers running interference. Forty minutes later, Plank and Thurston returned, and Plank asked the MapMyFitness team if they'd like to

PHOTOGRAPHS BY **JARED SOARES**

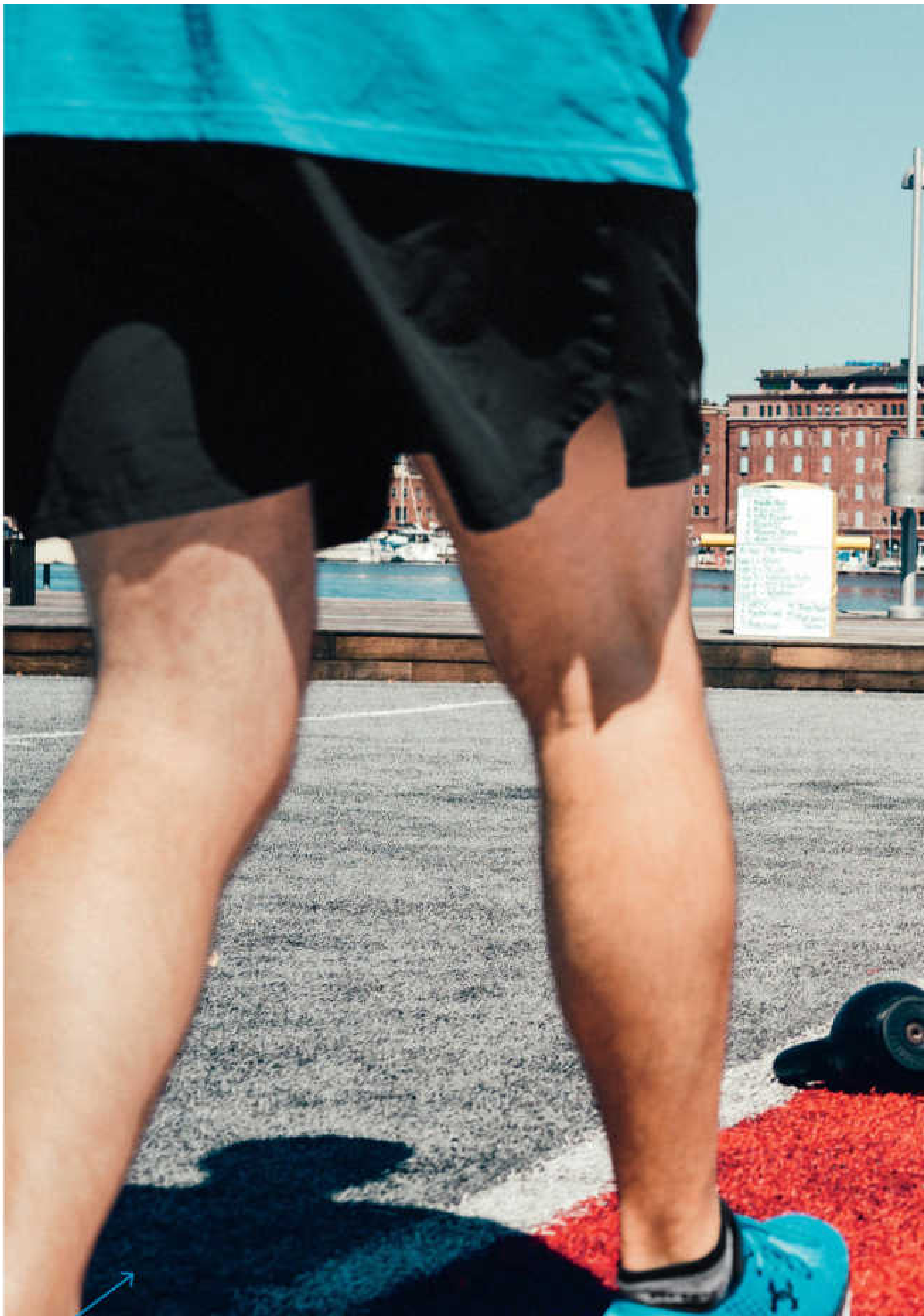
go to Baltimore, right away, to check out the Under Armour campus.

It wasn't 11 a.m. when the group—along with NFL veteran and sportscaster Boomer Esiason, who'd been waiting at the airport to hitch a ride on Plank's jet—pulled up at Under Armour headquarters. Former Washington Redskin LaVar Arrington opened Thurston's door, and offered a tour of the campus, as well as some oatmeal cookies, to the stunned app makers. Within two weeks, the parties had agreed that Under Armour would acquire the startup for $150 million, and Thurston would remain atop MapMyFitness and become Under Armour's chief digital officer.

Thurston, a onetime professional cyclist who maintained MapMyFitness's position as a top fitness app from the iPhone's earliest days, tells the story in his new office in downtown Austin, in a brand-new building where giant images of Under Armour athletes adorn the walls (amid, of course, motivational mantras) and several hundred new engineers and other tech employees work. At first, Thurston says, Under Armour's interest was a puzzler. He'd entertained partnering with insurance companies and media companies, but he always worried they'd exploit all the data MapMyFitness gathers about people's personal habits in ways that would violate the trust he'd built with the community. Under Armour had simply never occurred to him as a home for his company.

But the first thing Plank did in that private meeting in New York was pull up a concept video Under Armour had created earlier that year called "Future Girl." It showed a young woman starting a morning workout in clothes that were touch-sensitive and could call up data displays and even change color with the tap of a finger. "I made this for you," Plank said to Thurston. (In truth, it had run as a TV commercial; Plank told me it was made for someone like Robin even though "I didn't know who Robin would be.") He wanted to be sure that Thurston wouldn't bolt after the sale, but would instead see an exciting opportunity and lead it. Under Armour had always been a tech company, in its way, Plank explained—but it had struggled with digital.

None of the products in the "Future Girl" video existed then—and a variation of one is hitting the market now—but merging performance products with performance data and interactive technology was a top Under Armour priority, given Plank's instinct that that's where the world was going. Plank had directed a team several years earlier to create an "electric" product, and they'd come up with the E39 compression shirt, which had sensors embedded in the fabric to track an athlete's heart rate. The shirt launched at the 2011 NFL training combine to much fanfare, but a simplified consumer version—a sensor-equipped chest band—had only niche appeal.



GYM WITH A VIEW
At Under Armour headquarters, workers' breaks often involve workouts, like this one on an artificial-turf field overlooking Baltimore's Inner Harbor.

"It's absurd that you know more about your car than you know about your body," says Plank. He's betting athletes' personal data will turbocharge their fitness and Under Armour's future.

JARED SOARES

That experience made Plank realize Under Armour couldn't compete with hardware companies that employ thousands of engineers and constantly turn out incremental innovations.

"It's very normal for a product company—which is really what Under Armour is—to have gone down the path of trying to create hardware," says Thurston. "They know the distribution channels, they know how to sell products, they know how to market them. But as they started doing their homework on what was happening in the space, they realized that the strength [of digital fitness] was actually in the community."

Plank also knew it would take years to build a community like Thurston's. "It wasn't that I didn't know the right answers to be seeking from engineers. I didn't even know the right questions to ask," Plank admits. "I'm a sporting goods guy."

After the MapMyFitness acquisition closed in late 2013, Plank and Thurston proceeded uncharacteristically slowly, taking time to set priorities for Under Armour's digital transformation. Thurston identified four key pillars of health—sleep, fitness, activity, and nutrition—that he based on Plank's "make all athletes better" mission. Once that vision snapped into

focus, Plank saw an opportunity not just to be a collector of human activity data but also to be the central processor that turns that data—regardless of whose device or app collected it—into useful insights. “OK. Let’s do it,” he told Thurston one day in late 2014. By the following March, they had spent more than half a billion dollars acquiring two more companies: San Francisco–based MyFitnessPal, a nutrition-tracking system for people to log their meals, and Copenhagen-based Endomondo, a personal-training program whose users are almost entirely outside the U.S. Under Armour suddenly had not only the world’s largest digital fitness community but hundreds of engineers and reams of user data as well.

Just one big question loomed: How would any of that help Under Armour chip away at Nike’s dominance, or at least sell a lot more workout shirts?

ACROSS THE RAILROAD TRACKS from the Under Armour campus, a low redbrick building houses the company’s innovation lab, where president of product and innovation Kevin Haley leads a team of biomechanists, designers, engineers, and a psychologist to develop shoe and apparel concepts. There are weather chambers to re-create different exercise scenarios, devices that stretch and compress materials, gait-analysis systems, washers and dryers, 3-D printers, laser cutters, and countless other machines. The deeper you go into the long, narrow lab space, the more secretive the operations. The prototyping room is locked down from all but a few select employees and executives, who must pass a biometric scanner to enter.

Before taking over the innovation lab, Haley created the Under Armour consumer insights department. Early on, “the secret of our success was that we were the consumer,” Haley says. “Kevin was a football player. He just knew. But slowly, we got older than our consumer.” The company stopped bragging about not using focus groups and started tapping its sponsored athletes for product insights, sending researchers to look in people’s closets, and running online surveys.

What Under Armour didn’t know with much precision, though, was how people used its products after buying them. “You just know if a person swipes a credit card or not,” as Haley puts it—and even that only happens a couple of times a year for any customer. “We call something a basketball shirt, but is the guy wearing it to football practice? Is the boyfriend shirt he gives to his girlfriend something she wears as pajamas?”

But armed with data from Connected Fitness apps, Haley says, he can take design cues from 150 million people who, having downloaded a fitness app, are exactly the target audience: “There’s unbelievable data in there. You know their running pace, how far they go, how often they go. You literally know what brand of Greek yogurt they use.”

It’s too early to see many new products as a result of all the new data—developing a piece of gear typically takes 18 months—but Haley points to one. The company learned from MapMyFitness data that the average run is 3.1 miles—“not one or two miles, not five miles, but 3.1,” Haley says. So when it came to making the Speedform Gemini running shoe, which was released last January to largely rave reviews, the company

THE FUTURE STARTS HERE
These components—clockwise from top: the UA Scale, the UA Band, and the UA Heart Rate—make up the first new Connected Fitness product, the Health Box.

COURTESY COMPANY (3)

added “charged foam” padding tailored to that kind of run.

“The toughest question for us is not, Are there cool technologies out there?” says Haley. “It’s, What do you want me to work on? This gives us unbelievable insight that’s both incredibly broad and deep, with the same group of people we’re marketing toward.” That could be especially helpful in the two huge growth opportunities for Under Armour. More than 60 percent of Connected Fitness’s users are women, who account for just 30 percent of Under Armour’s apparel sales. And while only about 11 percent of its sales are international, 35 percent of the Connected community is outside the U.S.

Still, the high-stakes bet on Connected Fitness will be slow to pay off. Under Armour recently increased its projections for the next two years, estimating that it would nearly double net revenue by 2018, to $7.5 billion (up from a previous estimate of $6.8 billion). Only $200 million—a paltry 2.7 percent—will come from Connected Fitness. But Thurston likens his digital community to “having a Super Bowl–size audience every day,” and one of the most immediately practical moves will be using those apps as a marketing channel. A feature called Gear Tracker, for instance, allows MapMyFitness users to log the shoes they use every time they go running, and get a reminder when their mileage suggests it’s time to buy new ones. A partnership with Zappos makes ordering replacements easy.

"Imagine you're traveling in Chicago for work," Plank says. "You went for a run one morning, and you had a cold the day before. It's 7 degrees in Chicago, so I know your nose was probably running the whole time. Well, we make this great run glove—we call it the snot finger glove, because it's got basically a microfiber personal Kleenex attached to it so you can rub your nose. Imagine if I could send you an ad that says, 'Hey, are you going to be in Chicago for another day? Would you like us to send you a pair of gloves?'" Chris Glode, a key digital executive for the company, told a conference last year that the company has learned that consumers are 83 percent more receptive to fitness messages after a workout—so an ad could hit you right as you log your run. The average Underarmour.com order coming via a Connected Fitness app is 26 percent higher than those from other external sources, the company says, so one big priority is to build e-commerce into the apps.

If it all sounds eerily like those ads that, because of your browsing history, follow you around the internet, that's exactly the point—except Under Armour is tracking real behavior and the data is more specific. Everyone in the company says personal data mining will give customers better fitness insights and better shirts and shoes—so they become better athletes. Another way to look at it is that making people better athletes makes them need more gear. As Plank told analysts last July: "Ultimately, the more people exercise, the more athletic footwear and apparel they will buy."

"I LOVE MONOPOLY," Plank tells me. "You know why? When I play Monopoly with you, I'm going to buy everything from Baltic Avenue to Marvin Gardens. If you get to my side of the board, you'd better roll boxcars or you're going to pay rent."

He's trying to describe why buying MapMyFitness was never going to be enough; the real opportunities would come only if he controlled every part of the digital health experience, even if nutrition, say, has only tangential relevance to the sportswear business. If you're trying to truly understand athletes, you need to see what they do 24 hours a day. "It's absurd that you know more about your car than you know about your body," says Plank.

Hence an app called UA Record, a kind of overall health dashboard that relaunches this month in conjunction with the co-branded HTC devices—a Fitbit-like wrist strap, a chest-worn heart-rate monitor, and a connected scale, all sleek black and knobby red plastic, with scoreboard-inspired readouts. Record is an open platform for people to process their fitness data from any device, and Record exec Glode calls it "the ultimate digital expression of Under Armour." Plank gets especially animated talking about the relaunch of Record and the related devices, which will be sold together under the name Health Box. It'll be the first time users get to experience his full vision, and it's where he sees the potential to "affect global health." Roughly one in five Americans has downloaded one of Plank's apps, Plank has said, so he wants not only to help users keep track of their running times or weight loss but also to compare their data with that of millions of other people like them and offer valuable insights.

Whether the system sounds ingeniously simple or a bit too clever for its own good may depend on your dedication to fitness. To Plank, it's the former, of course: "It's like, I wake up in the morning, my wearable device tells me how long I slept, and data point one beams to the cloud. I go to the bathroom and step on the scale, and data point two beams to the cloud. I'm going to exercise, so I put on my heart-rate strap, and data point three beams to the cloud. And as I walk around all day, the fitness tracker beams how many steps I take. Finally, what did I eat for the day? If I want to go deep into MyFitnessPal and track everything, great, but if not, I just answer if I had a light or average or heavy day."

"This is where it gets really exciting," Plank says, and launches into a series of scenarios. If you are ill one day in October, you might learn that you get sick around the same time every year and that it correlates with your sleep or diet patterns or any number of patterns that you share with others your age and of similar height and weight. If you go to the doctor, all that information might be a lot more useful than the hand-scrawled note the physician has from your last visit 24 months ago and a couple of basic measurements the nurse took a few minutes earlier. "Nobody owns this," says Plank. "And I'm sitting here thinking, who should? Humana? CVS? You're going to trust them with your data? Why not us?"

I am the opposite of a moderate man reads one key Plankism scrawled on a company whiteboard.

Fair enough, says Morningstar's Swinand, but he questions whether Under Armour can win that battle when the competition includes Fitbit, Apple, and even Google. "The way tech works is you have four companies, three end up zeros, and the one that wins wins everything." He raises the possibility that Under Armour could end up the MySpace of fitness tech—and expresses concern about the recent departure of longtime COO and CFO Brad Dickerson. "I think Brad was the voice of reason, and Kevin is the flamboyant entrepreneur," Swinand says.

Plank likes his chances, in part because the wide appeal of Under Armour's locker-room aesthetic and barking brand voice could transfer to any number of connected products (think: Future Girl), but also because he now has more fitness data about users than even the leading tech companies. "If I'm right," he says, Connected Fitness "becomes a force multiplier that takes us from shirts-and-shoes company to true technology company. If I'm wrong, it costs us some money—we have $710 million on the table." A flicker of doubt from the unflappable Plank? No. "The one thing we know," he concludes, "is we can always make more money." He didn't need to point out another whiteboard commandment—the one that reads *Don't forget to sell shirts and shoes!*

TOM FOSTER *is an* Inc. *editor-at-large.*

Thomas Goetz

Seeing the Too-Big Picture

Think big to get attention from investors, but remember that big vision is built one small task at a time

IF YOU WANT TO feel small—really small—take nine minutes and go to YouTube to watch the Charles and Ray Eames documentary *Powers of Ten*. Looking down at a picnic, the camera pulls back by an order of magnitude every 10 seconds, moving from a human perspective to a bird's-eye view and beyond, the picnic giving way to the city, to the continent, to the planet, to the solar system, and then to the universe itself.

And when the camera reaches its apogee, there you are, in your little office, in your little chair, dwarfed by the scale of everything that surrounds you.

I've been thinking about orders of magnitude a lot recently. At every turn, startups are told to multiply whatever they're doing by 10—at least. Venture capitalists, you see, will invest only if they are convinced that they'll get, at the minimum, a so-called 10X return. In meeting with said investors, startups are advised to expand their puny vision 10-fold. We need to think bigger; we need to consider the impact of our work on the largest scale possible.

The lesson seems to be that if you don't work at 10 times the degree of other mortals, you won't survive. This rush to scale can be a bit unnerving, needless to say. After all, every startup starts small—really small, and necessarily focused on details. It's good to have a world-changing vision, but to get there you have to start with one product that makes life better for just one person. Without that, you're nothing.

Day to day at my startup, Iodine, we're pretty small, just nine of us building a specific solution to a very human-scale problem. Our new app, Start, helps people with depression decide if their medication is working. That's the most simple, straightforward articulation of its purpose, and if you're thinking that doesn't sound like a world-changing proposition, I wouldn't say you're wrong—unless you're someone who is battling depression, or a physician attempting to treat depression in her patients. For those who are, it is potentially a very big deal, given how fraught and messy and inefficient the status quo of trial-and-error treatment is. So that's what we're fixing.

But 10X? Here's our orders-of-magnitude pitch: Start is solving a $210 billion problem. Thirty million people struggle with a condition often subject to inappropriate treatment and inefficient follow-up. Start turns this struggle into data that feeds a benevolent feedback loop to help answer two questions: Is this working for me? And what works for what people? It's a new paradigm to optimize treatment of a frustrating, costly disease.

And another order of magnitude: Start is just the beginning. If this works for depression, it will work for other hard-to-treat medical conditions. Chronic pain, arthritis, hypertension—our strategy can scale readily to reach 150 million Americans, and more than 500 million worldwide. The total addressable market crosses $5 billion, $10 billion, $20 billion.

You want transformative technology? We've got algorithms that translate human processes into software. We're building analytics to predict whether your medication will work in days or in months. At scale, our data will make medicine faster, better, and cheaper by matching the right treatments to the right patients. This is what happens at scale. This is what happens at 10X.

The thing about the 10X framing is that it's tempting to convince yourself that such scale is certain, as inevitable as that depicted in *Powers of Ten*. But it's important not to be sidetracked by a vision. Yes, we know where we want to go, and we love how big this little thing could be. But right now, the crucial thing for us is to keep plugging away in our little office, trying to build something that ordinary people want to use. Sometimes it's good to think small.

Thomas Goetz is co-founder and CEO of Iodine, a digital health startup based in San Francisco. He is also author of the book *The Remedy*. Follow him on Twitter: @tgoetz.

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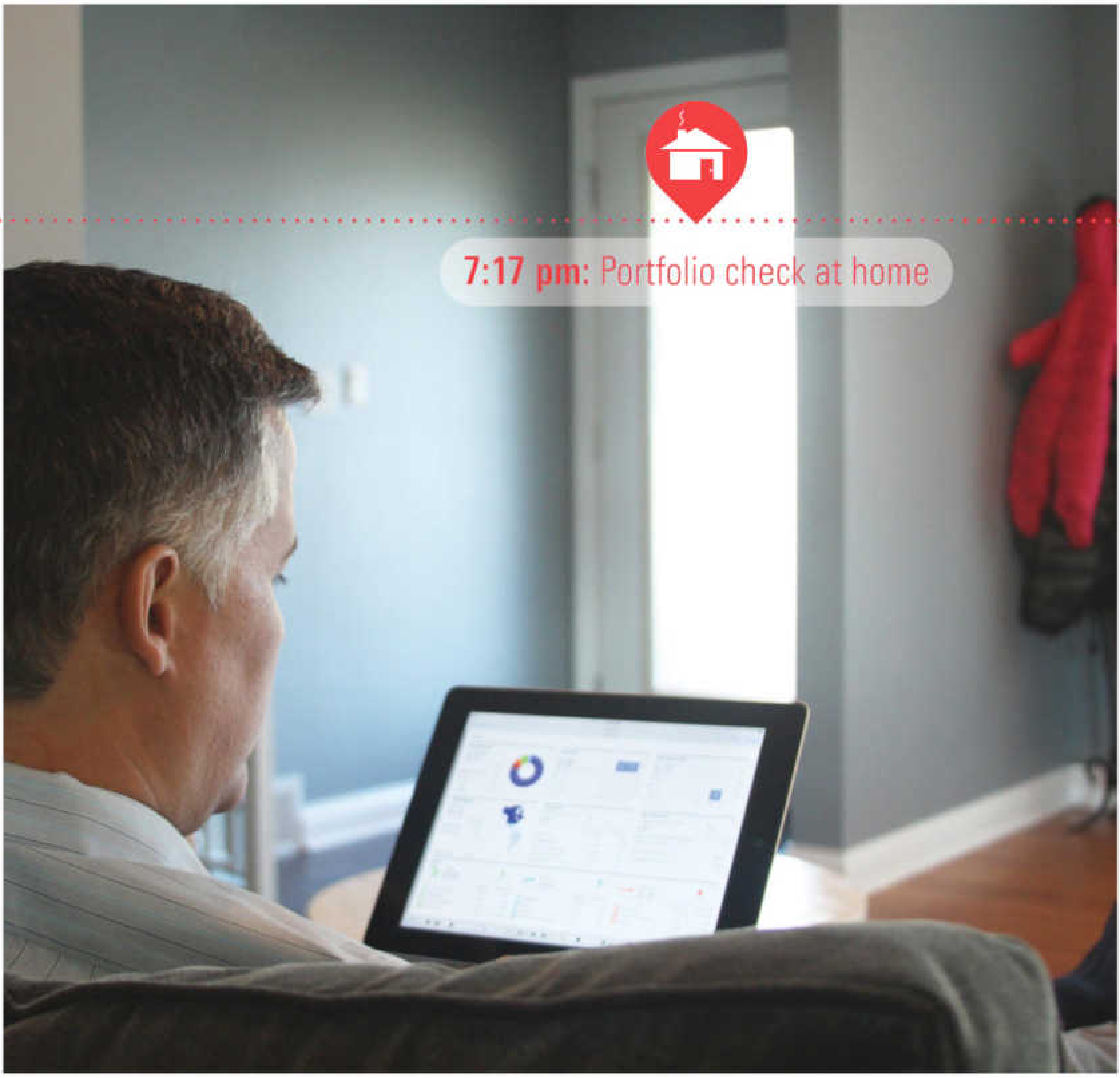

7:17 pm: Portfolio check at home

Lead

Inspire.
Empower.
Get Results.

"I started losing sleep about the ultimate cooler and dreaming about, 'What if we did this? What if we did that?' "

—ROY SEIDERS, co-founder and chairman of Yeti, maker of high-end coolers and outdoor gear, on the obsession that started the company

PG. 46

PG. 40

CALL MY LAWYER!
HOW TO LINE UP THE RIGHT LEGAL HELP

PG. 52

ARE YOU FACING A PROBLEM OR AN OPPORTUNITY?

PHOTOGRAPH BY **MICHAEL FRIBERG**

WHEN TO LAWYER UP

You can avoid hiring an attorney for many business issues. But there are good reasons not to skimp on expertise

IN THE INTERNET AGE, with Google doing your legal research and LegalZoom your contracts, you may have the illusion that your legal ducks are all in a row. This illusion seduces even those entrepreneurs trying to avoid disputes. "I always operate by what my grandmother said: 'An ounce of prevention is worth a pound of cure,'" says Matthew W. Richter, who co-owns Agora Auctions, an online coin-auction site. As a CPA, he carefully vets contracts, patrols his inbox, and deals with any potential conflicts immediately. Even so, he has faced problems. "My partner wanted to save money and used an online legal service," says Richter. "They completed the form saying we had employees in New Jersey. Which we didn't have." It took Richter a year of steady phone calls to the state to undo the glitch.

The problem is that you may not know what you need until it's too late. "Businesses can get pretty far without a lawyer," says C. Erik Gustafson, who oversees 300 attorneys at the Virginia law office LeClair-Ryan. Others assume their lawyer is watching the road. "'Why do I have to think about this?' 'Why do I have to worry about this?' I hear that all the time," says Barry Schwimmer, a partner at the Stamford Innovation Center in Connecticut, which advises startups. Schwimmer says too often companies believe that agreeing to work out problems in arbitration, rather than in court, will take care of everything. But, he adds, arbitration won't save you from aggravation and cost. Says one entrepreneur who's been through the process: "You still have to prepare your case. And that's time away from running my business."

That said, court is still best avoided. "You can't do well in a scorched-earth context in court," says Keith Ashmus, a partner at the Cleveland law firm Frantz Ward, "and those decisions are not hugely predictable." Consider these three places to hunker down with a lawyer to avoid problems down the road. —DEIRDRE VAN DYK

Owner and shareholder agreements

LegalZoom estimates that a business is started every three minutes using resources like its incorporation documents. While partnerships can be created in mere weeks, unwinding them may not be quite as easy. "In the beginning, they say they'll draw [a partnership] up if the business turns into something," says Robert Borghese, an attorney and a professor at UPenn's Wharton School. "But once it does, they're too busy to think about it."

Then you find each partner has different expectations. All issues need to be clearly laid out up front. "How do you want the business to mature?" says Gustafson. Are you going to let it mature? Or flip it like a house?"

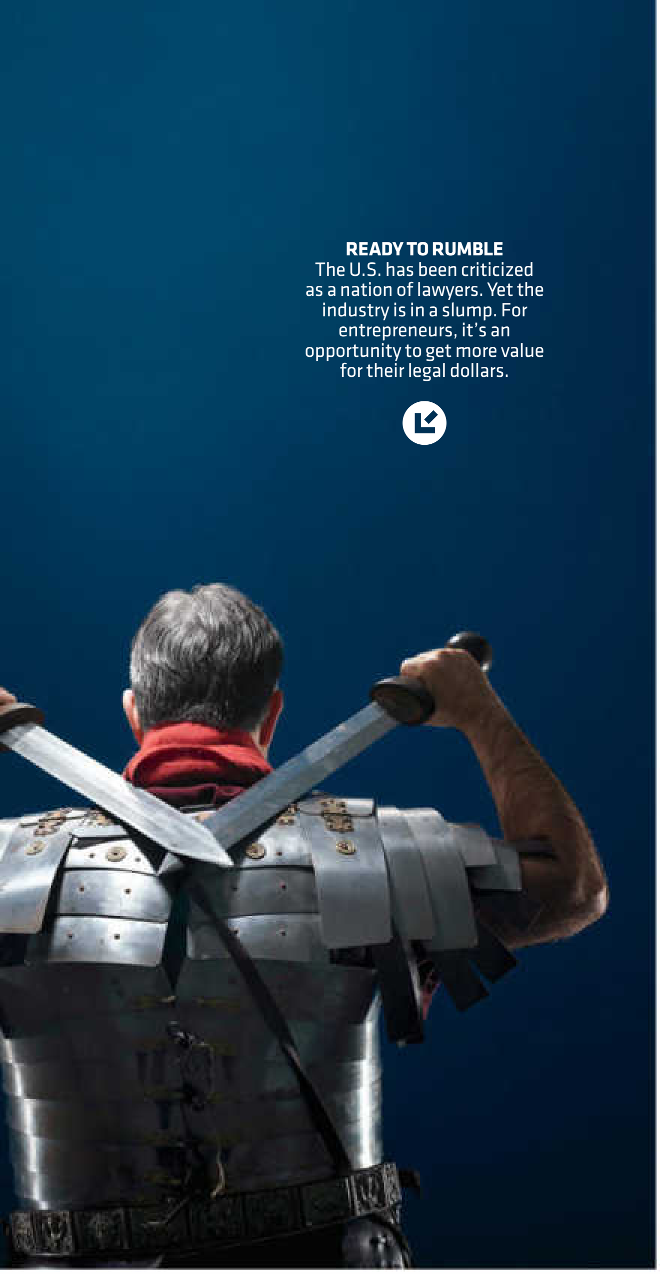
Adds Schwimmer: "And all those involved need to understand fully what they're entitled to when they walk away or sell it. Or what happens when you need more capital and ownership shares are diluted. Everyone's always in a rush to get to a closing. But I try really hard to make sure everyone understands." Any later conflicts that arise, he says, "are incredibly detrimental to the growth of a company."

THE FINE PRINT ABOUT CHOOSING AND USING A LAWYER

The best time to find an attorney is before you need one

Find the Right Match

Get the right flavor. "I once bought a company that had as its counsel an insurance litigation firm," says the Stamford Innovation Center's Barry Schwimmer. It had no expertise in that business. Result? Bad advice. "An experienced lawyer can say, 'You can do 10 different things, but this is the one that works,'" says C. Erik Gustafson of LeClairRyan.



READY TO RUMBLE
The U.S. has been criticized as a nation of lawyers. Yet the industry is in a slump. For entrepreneurs, it's an opportunity to get more value for their legal dollars.

Labor

The rise of the gig economy is testing the boundary between who is an employee and who is an independent contractor. So it's no surprise that this is a fast-growing area of litigation. Misclassifying a worker as an independent contractor can be one of the most expensive mistakes you can make—costing thousands in back taxes, interest, and other penalties.

While the IRS has a 20-point test to determine who qualifies as one or the other, and the Labor Department has issued new guidelines, you may need someone to take a close look to see if you're abiding by the law.

Making sure you own the work you've paid for is another important consideration when using independent contractors. "I worry as much about the ownership of the created intellectual property," says Russell Rosler, partner at the Columbus office of law firm Vorys, Sater, Seymour and Pease, talking about what's in the contractor agreement. "The IRS doesn't care about that. But I promise you, your investors or buyers are going to be kicking the tires."

Contracts

To contain legal costs, businesses sometimes "grab language off a random website," says Ashmus, wryly. "That's often delightful for lawyers." Some online contracts are irrelevant to the problem at hand, ambiguous, or difficult to enforce. "Or you may be agreeing to abide by California law," says Ashmus, "though neither party is based in California."

Your lawyer should also prompt you to think of all contingencies. "A poorly written contract can be a huge dollar-and-time suck," says Chad Burton, partner at Burton Law in Dayton, Ohio. "Dealing with it can drain the energy out of the owner and his team."

GETTING A DECISION WITHOUT A COSTLY FIGHT

ARBITRATION

Many firms still view it as second-class justice. "In my experience, they just split the baby," says Barry Schwimmer of the Stamford Innovation Center. But Jeffrey Zaino of the American Arbitration Association insists that 90 percent of cases have a clear winner.

PROCEEDINGS Evidence may be limited. Arbitrators with expertise in a field can be selected, and are paid, by the parties. Its similarity to a court trial, including costs, can be a downside.

DECISION Zaino says awards are enforceable. Going to court and asking for a summary judgment gives the victor a way to extract the spoils. And, he says, decisions by arbitrators are rarely overturned.

MEDIATION

It take less time. But either side can walk, leaving you without an outcome. Even so, Frantz Ward's Keith Ashmus says, "those discussions often come around later and help get things resolved."

PROCEEDINGS Mediators may meet with the parties separately to find common ground. K. William Gibson, a lawyer and a mediator in Oregon, says, "both sides have to be willing to acknowledge the weaknesses in their case. Both sides will have them."

DECISIONS Solutions can be creative. Ashmus cites a case between a manufacturer and distributor that resulted in the latter's being given another of the manufacturer's products to sell. How far should you bend? "You can't get emotional," says Schwimmer. "It's just economics, not life or death."

Understand the Downside

"Never engage a lawyer or firm that doesn't clearly explain the magnitude of risk," says Gustafson. "Your lawyer's job is to not accept risk on your behalf," says Schwimmer. "It's your decision as to what is an acceptable risk. They're not going to benefit from you making the right decision or the wrong decision."

Negotiate Fees

Big firms, under pressure, are now offering structured fees, so you don't have to feel that every phone call is running up the meter. Chad Burton of Burton Law says many firms are trying to make fees more transparent and to work in innovative ways.

Trust but Verify

Lawyers are helpful analyzing risks in a deal, but a lawyer can't do it on her own. It's critical you spend some time getting to understand a contract's provisions, says Schwimmer. And not just with your lawyer but with the counterparty and its lawyer, to make sure both sides know they're agreeing to the same things.

SPREAD: GALLERY STOCK.
ILLUSTRATIONS: ROSS MACDONALD (2)

SPEAKING UP
"I believe in free expression," says Nick Denton. "We're in the attention game."

Drinks With Nick Denton

Keeping Calm in Heavy Weather

By KRIS FRIESWICK Photograph by DINA LITOVSKY

NICK DENTON shouldn't be talking to me. Any founder worth his cocktail peanuts knows that when in the midst of a massive lawsuit, one maintains one's silence. But that's not how Denton operates. The thought of being muzzled offends his principles. "I believe in free expression," he says. "The idea that you have to shut up, lest your words be used against you ... " He shakes his head. Not happening.

Denton has a lot to talk about, too, because his company, Gawker Media Group, a collection of irreverent, news-breaking blogs that gather more than 100 million viewers globally each month, is in the fight of its life. Hulk Hogan, the former WWE wrestler (real name: Terry Bollea), has filed a $100 million suit against Gawker for running clips of a bootleg sex tape that Hogan stars in, claiming the company invaded his privacy. Screenshots from the video had already appeared on other websites, but none has pockets as deep as Gawker's (the company, of which Denton owns 48 percent, was profitable on an EBITDA basis in 2014, Denton says, on revenue of $50 million). A trial is scheduled for March 2016.

If Gawker loses, and Hogan gets his full asking price, Denton's company may not survive. "I think it's clear we'll win this case," says Denton. "The question is how many rounds we need to go through to establish that."

And, boy, are those rounds getting expensive—so expensive that Denton has said

WHAT DENTON LIKES
"I love the internet," he says. "I love following links and finding interesting things," like these:

1_
Black Mirror, *a British TV series on Netflix about a dystopian future.* "It's brilliant. Awfully brilliant. There's so much good stuff."

2_
Sapiens, *a book by Israeli historian Yuval Noah Harari.* "A media-centric history of humanity—flattering, if you're a writer."

3_
The Browser, *a blog by U.K. financial journalist Robert Cottrell.* "Economics, political science, evolutionary biology—he's interested in a lot of things I'm interested in."

publicly he is open to seeking outside capital for the first time since he founded the company in 2003. As if that weren't enough, in June part of his staff voted to unionize, and he recently announced layoffs and a major shift in editorial focus and strategy for the company's flagship property, Gawker.com, which has generated a flood of critical and, at times, personally insulting media coverage. Then, shortly after we spoke, a former employee published a blistering article maligning the company's treatment of its female employees.

A London-born child of a psychotherapist mother and an economist father, Denton was a financial journalist before he became an entrepreneur, with stints at *The Economist* and *Financial Times*. He's an ardent, some would say foolhardy, proponent of free speech and the rights of the media to publish the truth as they find it. "There are public aspects to our lives and there are private aspects to our lives," says Denton, who recently married his boyfriend, performer Derrence Washington, after a brief courtship. Hogan, he argues, made himself Gawker-worthy when he publicly and shamelessly bragged about his sexual prowess—a claim refuted in the sex tape, Denton says.

But Denton is also an idea man, adept at spotting tectonically important trends that have been the basis for Gawker and his two previous companies (both sold)—First Tuesdays, a networking and social events company, and Moreover Technologies, an online news aggregator. He can feel the wind shift before anyone else knows it's blowing. Right now, though, he's in the middle of the sort of public storm that few private company CEOs ever experience.

The story is unfolding under the gaze of the schadenfreude-loving New York City media, which is obsessed with the minutest details of Denton's travails. Hard to find fault there, considering the scathing manner in which Gawker has covered the media. "We're in the attention game," says Denton. "We're used to being out there. We've played the role in the past and it's a role we will continue to play. I'm cool with it."

Indeed, Denton is preternaturally calm when we meet for lunch and drinks on a sunny Thursday in lower Manhattan. By all appearances, none of it is touching him. I assume he's either so self-confident (or emotionally detached) that he truly doesn't care, or he's discovered the trick to compartmentalizing criticism. Turns out, it's a bit of both.

"Everybody needs to get used to an online environment where everything that can be said, will be said," he says. "You have three alternatives. You either close your ears to it, operate in an atmosphere of complete secrecy, or embrace the transparency that the internet has brought and say,

> “My interests tend to wax and wane. I’m not a particularly consistent manager. I need people around me to save me from myself, and to save the company from me, too.”

‘That’s what it is.’ There are going to be people who like what you do and there are going to be people who don’t. What matters is that there are enough people who like what you do.”

But before you get too smug that you’re not Nick Denton, get ready to join him—because if your company hasn’t yet faced this sort of scrutiny, it very likely will. “Managing now is increasingly a question of managing in public,” says Denton. “When you’re thinking about what you’re going to do internally, you have to think about how it’s going to play externally, because organizations are much more leaky than ever before.”

Denton has built an entire business by exploiting those leaks, and his media properties have been credited with breaking stories about crack use by former Toronto mayor Rob Ford and Hillary Clinton’s private email server, and unearthing photos from Dallas Cowboy Greg Hardy’s domestic abuse case.

In the past year, despite the controversy swirling around Gawker, Denton has focused mostly on an overhaul of his upper executive ranks—the people he wants to be managing the company’s day-to-day drama and challenges. Considering his assessment of his own managerial skills, it’s a smart move. “I don’t think journalists are, by character, very good CEOs,” he says. “My interests tend to wax and wane, which means that I’m not a particularly consistent manager, and an inconsistent manager is basically a bad manager. So I had to rely pretty heavily on deeper-level managers who are much more consistent than I am.”

He pauses and adds: “I need people around me to save me from myself, and to save the company from me, too.”

Getting someone else to handle the ugliness might explain Denton’s serene aspect. We’ll see if it holds come the Hogan trial in March.

The Yeti

Ryan Seiders

All he wanted was a small, custom-fishing-rod company. Instead, he helped build a half-billion-dollar business.

Brotherhood

When two frustrated fisherman set out to reinvent the cooler, they didn't expect to upend an industry By Bill Saporito

Photographs by Michael Friberg

Roy Seiders

If you're sight-casting for redfish, you need something sturdy to stand on. So he created it.

The Tundra

The cooler that helped launch an outdoor phenomenon.

Ryan Seiders handles a fishing rod like Harry Potter does a wand.

We're floating down the Colorado River near Austin, and our guide points toward a submerged log and instructs us to cast just beyond it and retrieve the lure slowly. Seiders flicks a wrist and bull's-eyes the spot with a plastic worm. A couple of cranks later and he is hooked into a five-pound largemouth bass. A few minutes after that, his younger brother Roy gets into one. "Football," Roy yells, as a fat bass flies into the air and is urged toward the boat.

Not bad for a Tuesday afternoon in October. And it beats work. Or maybe it is work. Hard to tell. The whole idea behind Yeti, the company that the pair co-founded, was to design a cooler that could withstand their fishing tactics—primarily, one they could stand on without fear of collapse as they sight-casted for redfish. The secondary goal was to afford them time for fishing and hunting. Work some, fish some. Has a nice rhythm to it.

"All I really wanted was a cool fishing-rod company," says Ryan. That didn't quite work out. Instead, he and Roy have hooked into a monster, a company that is making an unprecedented run in the outdoor-equipment market by taking a low-end commodity and turning it into a coveted brand.

Yeti is the Range Rover of cold. Its overbuilt Sherpa coolers hit the market in 2006 priced between $250 and $300 a pop, an astounding premium—"10X," as Roy likes to label it—over the average Igloo or Coleman. Yetis now go for up to $1,300 for the 85-gallon Tundra 350. The cooler, when locked, is so strong that it's beyond the ability of a hungry grizzly to crack it. (It was tested on one and approved by the Interagency Grizzly Bear Committee.) "People in Texas will brag that their cooler is grizzly-proof, even though there's not a grizzly within 1,000 miles," says Roy.

And that tells you about the power of the Yeti brand—customers are the ones bragging on it. "This brand is just on fire," says Mike McCarty, category merchandising manager for REI, a high-end outdoor-products retailer. After a test program in 2014 went through the roof, REI now carries Yeti hard coolers as well as its new soft cooler, called the Hopper, plus the company's stainless-steel Colster and Tumbler drinkware.

Started in 2005 while the boys were dabbling in the fishing-rod (Ryan) and boat (Roy) businesses, Yeti began to take off in 2011 when sales hit $29 million, as word spread among the hardcore "hook and bullet" crowd. In 2014, that figure hit $147 million as the brand migrated into other segments, such as oil field and barbecue. Still, the brand had little recognition, even with outdoor enthusiasts.

In 2015, sales skyrocketed as Yeti became a gotta-have label. It was the payoff from years of grassroots marketing to fishermen and hunters who not only spread the word but helped Yeti spill into other markets. Yeti's ability, with the help of an outside investor, to grow into a more sophisticated sales and marketing organization then became a multiplier. That's why the brand is as at home in a beach house in Duck, North Carolina, as it is in a duck blind in Texarkana. Yeti is even a cultural touch point. In his song "Buy Me a Boat," which reached No. 1 on the iTunes country chart, Chris Janson warbles that money can't buy happiness, "but it can buy me a boat, it can buy me a truck to pull it, it can buy me a Yeti 110 iced down with some Silver Bullets." For 2015, Yeti closed in on $450 million in sales, up from $5 million in 2009.

For entrepreneurs and product designers, this is the ultimate goal: turning a commodity into an object of desire. "It's just a fucking cooler," laughs David Srere, co-CEO and chief strategy officer of the branding and design agency Siegel+Gale, with obvious admiration. Because what the Seiders brothers have produced is more than a box that will keep your brewskies chilled longer. Their ability to carefully build an authentic, durable brand story is just as important, maybe more so, than the indestructibility of their product.

"What their story is about is not this cooler," says Srere. "It could have been a zillion things, but they have built their community, their operating philosophy, around their passionate commitment to the outdoors." Large corporations would pay anything for this kind of credibility, which is what makes it unobtainable to them.

Ironically, Yeti is going to have to behave a bit more like a large corporation to fend off copycats, as well as to expand its product line and manufacturing capacity. The question is how the brothers can do that without losing their hard-won cred.

The sons of a nurse and an outdoors-loving high school teacher, Ryan, 42, and Roy, 38, were raised to be good entrepreneurs. In the 1980s, as part of a project he assigned to his students, their father, Roger, an industrial arts teacher, came up with a glue that fixed a common fishing-rod problem. It then became a business, and Roger found himself out of the education field.

Almost. He taught his sons how to build things. "He always had woodworking equipment, so we'd go get our hands dirty and make stuff," says Ryan. Dad also dragged the entire family—including Roy and Ryan's brother and sister—to trade shows. "We would run around the trade shows," says Roy. "And I

ANATOMY OF A $400 COOLER

IN DEMONSTRATING their cooler to potential retail buyers, Roy Seiders would take a cheap plastic hinge out of his pocket. Lids on inexpensive coolers, he explained, are often attached with these hinges, and they often break. Tundra is designed to be failure-proof and has an integrated hinge system. The top and bottom pieces slot together and are held in place by aluminum pins that run the length. Anything that can break—a rope handle, for instance—is easily replaceable.

Tie-down slot

An integrated sleeve lets you slide a two-inch strap over the top and tie it down to a tailgate rack. There's another for a one-inch strap to secure it to your boat.

One-piece molding

Commodity coolers glue two pieces of plastic together. That seam is a failure point. Yeti uses rotomolding, which produces coolers that are more rigid.

T-latch

Heavy duty rubber latches fit into an integrated latch keeper in a ball-and-socket-type closure.

Handle

Two sets. One is integral to the molding, used when one person is carrying the cooler. There are also two rope handles, to more easily accommodate a two-person carry. Both protect your knuckles from scraping.

Lid

You can stand on it, and the lid is fully insulated. It also has a full-frame sealing gasket (like your fridge) to keep out the circulating air, which enhances ice retention.

Feet

Tundra's standard equipment includes nonslip rubber feet that won't scratch fiberglass boats while creating space that prevents convection. If you want to slide the cooler along your truck bed, just pop them out and screw in a set of hard plastic ones.

Drain

As in a boat, there's a drain angled along the bottom, plus a detachable hose fitting.

Grizzly-proof

Add a couple of locks to the slots designed for them, and *Ursus arctos horribilis* goes away hungry. (And pissed off.)

think, more than anything, being with Dad exposed us to small business, wearing all the hats, all the functional areas in the business, and then [trade shows] exposed us to ... the fishing-tackle industry."

After graduating from Texas A&M (Ryan, 1996) and Texas Tech (Roy, 2000), the Seiders boys started cooking up business plans. Having worked with his father in the fishing-rod specialty area, Ryan started a custom-fishing-rod business keyed to the Gulf Coast market. "Had a great time, made a lot of good contacts," he says. "Never made much money." Roger had also taken to building boats, mostly as a hobby. Roy began to make a business of that: customized, aluminum boats for stalking redfish in the shallow coastal waters of the Gulf of Mexico.

Roy's customized boat called for three coolers that were integral to the fishing itself, especially one that sat in the bow and was supposed to be used as a casting platform. "This boat was kind of well thought out and heavy duty and durable," says Roy, "except for ..." Yup, except for the coolers. They were seeking better options when Ryan spotted an import from Thailand at a local retailer during a break from a trade show.

Impressed with the cooler's ruggedness, but not its design or finish, Roy bootstrapped an import business to become a distributor for the Thai cooler. He concentrated on the market he knew best, fishing-tackle shops and other independent outdoor-equipment retailers. While he was making progress in sales and distribution, he wasn't making any progress with the product itself. And the cost of addressing warranty issues was mounting. "I started losing sleep about the ultimate cooler and dreaming about, 'What if we did this? What if we did that?' " he says.

Out of frustration, the pair made a trip to Thailand to try to persuade the manufacturer to make some improvements. That effort proved fruitless. They then heard about a plant in the Philippines that seemed promising. "Ryan and I debated whether we should go to the Philippines," says Roy. "We convinced ourselves to go, and we sat down with that factory and quickly realized that these guys were on a different level. They were capable of building a great product for us." When they left, Roy remembers thinking to himself: "Hey, this is now our future. It's time to start our own dealing and our own brand name."

To fund the Yeti prototype, Roy used money from the Thai-cooler importing business. By then, Ryan had sold his fishing-rod firm. One of his best customers had kept asking him how much he wanted for the company. "I thought about a high price—it would take me forever to save up that money—and he said, 'Sold,' " recalls Ryan. "And my heart just kind of sank. I was thinking, 'Oh, shit, I should have said double that.' " He was now a cooler manufacturer full time.

Yeti's hard coolers are made through a process called biaxial rotomolding. Kayaks and those orange plastic barriers you pass on the road are made with this process. It involves

pouring a powdered polyethylene plastic resin into a mold, and then heating and spinning the mold along two axes. As the powder liquefies, it layers across the mold precisely, creating a seamless, nearly indestructible product.

The cooler is designed so that anything that is breakable is also quickly replaceable. "So if you're at home and your dog chews that [rope handle] off, instead of sending a replacement cooler, we're letting the customer know, 'Hey, take a flathead screwdriver, pop that out, this falls out, and we'll send a new one,'" says Ryan. In Roy and Ryan's world, everyone has a dog and a truck and is handy with a flathead. If you don't own a dog and a truck and aren't handy, you can still feel smug about the over-the-top design you've chosen.

The byproduct of the construction is ice retention. "We will debate every detail, and we'll both lose sleep thinking about what's best for the product," says Roy. They also debated the company name. Roy thought of it in bed, obsessing again. Of all the names they floated to friends and family, it was the one that most remembered: Yeti, the Ice Monster.

When they got to a prototype, they realized they'd have to sell their cooler at retail for about $300 a pop initially. No such market existed. There was no point in selling to Walmart or Target; they needed another distribution path. Calling on hardware and tackle shops, they offered this proposition: Why try to compete with Walmart selling $30 coolers and keeping the $5 margin? You can sell a $300 cooler and keep $100.

Ryan and Roy were convinced Yeti would sell to people just like them. So they continued to work the small accounts and the trade shows. That's where Walt Larsen, head of Scales Advertising, now Yeti's agency, found Ryan, standing in front of a table looking like he was selling pies. "I loved their product," he says. "I loved that they were going opposite the market." Yeti's other big advantage, Larsen says, was its target audience: "I told them the outdoorsman is easy and inexpensive to reach, and that there was a monumental opportunity if they were aggressive. And they said, 'Sounds great.'"

Larsen helped the brothers create a simple tagline—"Wildly Stronger, Keep Ice Longer"—and focused their marketing on the hunter-fisher core by hiring influential guides and fishermen as brand ambassadors. In the first few years, with every cooler shipped Ryan and Roy threw in a Yeti hat and T-shirt to create a conversation around the product. "I really felt like we educated our consumer on the selling points of our product," says Roy. "So when someone had a Yeti cooler in the back of their truck, they could defend that."

By 2011, with sales outstripping manufacturing capacity, Ryan and Roy knew they had a 100-pound fish on a 10-pound line, and that their dream of a modest lifestyle business was actually too small. They also knew they needed help to figure it out. In 2012, they sold a majority position to Cortec Group, a private equity firm that brought operational experience, though not necessarily outdoor experience, to the table. "I'm one of the worst fishermen in history," says Dave Schnadig, Cortec Group's managing partner. But Cortec had previously owned a rotational molder and thought it could help Yeti address its supply chain issues. Yeti contracted with rotomold manufacturing plants in the Midwest, in addition to the plant in Asia. It's a rare case of reshoring, but it has helped speed delivery and lets Yeti control the manufacturing process.

Yeti had to outsource logistics in 2012, when the 35,000-square-foot warehouse that Ryan and Roy feared they would never fill became hopelessly inadequate. "The only scary thing is the volume," says Ryan. "There are challenges at a much bigger scale: quality, supply chain. The supply chain can't keep up. It's a good problem to have, but it's a problem."

The company also reeled in its sales from independent reps to gain more control over growth. "That was a really big first," says Schnadig. Yeti recruited Paul Clark, the former head of sales at TaylorMade Golf, to build a sales team.

At the company's Austin headquarters, the brothers changed their hiring philosophy. As many founders do, they

OUTDOOR BRANDS: LIVING DANGEROUSLY

NATURE IS A nurturing place for entrepreneurs. Many fishermen, skiers, adventurers, campers, hikers, and bikers have been inspired to create products that enhance their experience. North Face began as a quest to build a better tent. Patagonia looks like a clothing company, but founder Yvon Chouinard's unhappiness with a piton got him into the mountaineering hardware business first. And if nature can be unforgiving, the outdoor industry is even worse. Brands that make the leap from function to fashion can find the climb gets rougher. Here are some of them.

Commodity
Coleman: The camping equipment stalwart ran into some difficulty as it changed hands under a number of operators (Ron Perelman, Sunbeam) until it was sold to Jarden, a sprawling holding company run by sports lovers. Jarden collects underperforming or underfunded brands. Its sporting-goods portfolio includes a number of once-hot brands—K2, Marmot, Marker, Rawlings, Penn, and Stren.

Cool but cooling
Timberland, North Face, Vans: VF Corporation bought North Face out of bankruptcy and spent $2 billion to acquire Timberland. These brands are everywhere as shareholders demand growth. The coolness factor is fading and the company's stock has struggled.

Still riding the wave
Icebreaker: The New Zealand-based company, founded by Jeremy Moon, sells sustainably made, all-wool clothing. And you can virtually meet the sheep that made it possible.

Molten hot
Canada Goose: A 60-year-old Ontario clothing supplier to polar explorers was taken mainstream by the founder's grandson. Canada Goose's cachet has vaulted over that of Marmot, North Face, and last year's darling, Moncler.

Dead
Cloudveil: A ski clothing brand that face planted. Cloudveil had several corporate owners after founder Stephen Sullivan sold it; a new firm is trying to reestablish the brand. Sullivan has since launched an outdoor apparel company called Stio.

COURTESY TIMBERLAND

had first hired "athletes"—friends and friends of friends who could handle everything from marketing to shipping. They now had to shift from athletes to skill-position players—the product design team could no longer be named Ryan and Roy. Though the company has doubled in size in the past year, to 200 employees, 60 positions were open when *Inc.* visited in November.

More important, from Cortec's perspective, Ryan and Roy were wide open to discussions about how to organize the fast-growing company. "Deep conversations. Zero egos," says Schnadig. (Yeti doesn't even have a sign on its building.) When Schnadig arrived, four people—Roy and Ryan and two others—were running the company. Yeti now has three C-level execs, a general counsel, and six vice presidents. "There were a bunch of positions we didn't even know existed," says Ryan. Things like supply chain manager, product development engineer, and director of marketing. When Corey Maynard was hired to run marketing in 2013, he had just three direct reports.

In 2013, Yeti did a brand tracking study that showed just 4.4 percent awareness among its core outdoor audience. So, in 2014, Yeti began to establish a strategy built on natural tangents to hunting and fishing. For instance, rural feed-and-seed stores were targeted since farmers and ranchers work and play outdoors and like to barbecue. Another outdoor set also wanted in—the crunchy, snowboarding, mountain-biking, organic, locavore, fly-fishing Boulder crowd. REI tested Yeti in 2014 in response to requests from customers in Texas. "For Yeti, it was a chance to get into a different marketplace," says McCarty. "We were a little nervous about $400 coolers and $600 coolers." But by 2015, REI was a little nervous about keeping them in stock. "Every once in a while you get these opportunities," says McCarty. "It's a fun ride."

It got even more fun when Yeti expanded its product line to include a soft cooler called the Hopper. It's a more portable, over-the-shoulder cooler, but it has plenty of outdoor cred: There are four tie-down points, the insulating material also makes it buoyant, and the zipper was borrowed from cold-water survival suits to make the Hopper watertight. Most recently, there's drinkware. "Drinkware and soft coolers created three legs to our stool, validating what we always thought—that the brand can carry us into new territories," says Roy.

Last summer, Roy brought in Matt Reintjes from Vista Outdoor to replace himself as CEO while he retains the chairman's title and focuses on product development. Given capital, bulked up leadership, and its current growth rate, hitting $1 billion in sales isn't a goal, but it's probably unavoidable. The brand has barely left the South and has no international sales.

Roy

He focused on durability over cost. The result was a cooler 10 times the price of the competition's. Then he figured out how to sell it.

Ryan

He spotted a rotomolded cooler at a boat show and called Roy with the news that he'd found what they'd been looking for. Their trip to a Philippines factory proved him right.

Yeti, not surprisingly, is facing increasing competition. Igloo is in the hunt with a roto-molded cooler. The upscale hunting-and-fishing retailer Cabela's, among others, has imitated Yeti's hard cooler, selling it side by side and offering bigger versions for a similar price. That was inevitable.

There's not much Yeti can do about Cabela's aping its product, but it can find other retailers. It now has the money and staff to target more segments and broader audiences. And for a company its size, Yeti's product line is a relative minnow. One of the strategic issues Reintjes and the Seiders brothers face is whether to take the Yeti brand into even more distant territory. Yeti boats? Kayaks? Clothing? "Yeti started as a product company," says Reintjes. "One product. What we've seen in recent years is that it's become a product brand. It has a lot of product stretch."

And Yeti definitely wants to stretch, both the product line and the territory. While continuing to expand its Hopper and drinkware lines, Yeti is doing a deep dive into new product categories and in the process expanding its product development team from 20 to 55 people by the end of 2016. As for geography, the company has plans to begin rolling out their products to selected international markets.

As Harley-Davidson has shown, a brand that becomes tribal can be enduring. "When you slog through the land of branding, you can become jaded by the sheer exponential power of what a brand can do," says Siegel+Gale's Srere, "and then, every once in a while, you see it and *bang!* That's what Yeti's got. That's what Harley-Davidson's got." Cortec's Schnadig knows it too. "This won't happen again in my career," he says.

Before we head out fishing, Roy reveals a prototype of one of Yeti's newest products. It's a bottle opener. The device is about five inches long and, suffice it to say, there is going to be enough leverage in this puppy to lift hubcaps off pickup trucks, never mind the cap on a bottle of Shiner beer. "I love bottle openers," Roy explains, admiring the mockup. "The fifth one is going to be over the top."

Which is to say that Yeti will soon be selling five premium-price bottle openers in a market that needs zero. A market that wasn't crying out for a $300 cooler, either, but as the Seiders brothers have shown, a little obsession can go a long way.

—

BILL SAPORITO *is an* Inc. *editor-at-large.*

STREET SMARTS

Norm Brodsky

The Good News About the Bad News

Almost every problem harbors opportunity. Sometimes, you need a little help to see it

IT HAS BECOME A CLICHÉ that entrepreneurs should try to turn problems into opportunities. The question is, how? That depends, of course, on the nature of the problem, but there are always clues. The tricky part is identifying them. We tend to become so used to viewing things one way that we miss the signs pointing in the opposite direction.

I'll give you an example. A woman I know started a bakery in Brooklyn several years ago. She had acquired the capital to build the company by selling equity to a group of angel investors, who owned just over 50 percent of the stock and thus controlled the board. The bakery had retail and wholesale customers and attracted a loyal following but was barely profitable. The founder, whom I'll call Judy, and her two operating partners recently came to me with ideas that would significantly increase the bakery's profitability. They also felt strongly that the business needed to expand. Judy was ready to invest an additional $100,000 of her own money and to raise $150,000.

The problem was the board. Its members refused to authorize the expansion and were blocking her from raising more money. They didn't want their investments to be diluted. They wouldn't even let her take out a loan. One of them told her they would get out of her way if she would return their original investments—buy them out—but she felt every nickel should go into building the company. She asked me for ideas to help her get the board to loosen its grip.

I told her that she was looking at the situation the wrong way. "When investors tell you they'll leave if you just pay back the money they invested, they're saying that they think they've made a bad investment," I said. "This is a vote of no confidence."

"So what should I do?" she asked. The answer was an easy one: Buy out her investors. Judy, however, was so focused on growing the business that the thought had never occurred to her. "Listen, this is a chance to get out of a bad partnership," I said. "If you're having these problems with your investors now, you'll have even bigger ones in the future. These are the wrong investors for you. Go ahead and raise the money, but don't spend it on expanding. Use it to buy them out."

Judy was taken aback. She asked what I thought about her plan to outsource the wholesale baking, which would drive up profits. "Don't do it," I said. "It's a good idea, and you probably should have done it a long time ago, but now is not the time to increase your profits. If you do, your investors might change their minds about cashing out. Then you'll be stuck with them."

Judy viewed the idea of paying investors to leave as a step backward. "No, no," I said. "Don't look at this as a negative. Look at it as a great opportunity. You've got to move quickly. The sooner you regain control of your company, the better off you'll be. Then you can take a deep breath and tighten your operations, and in a couple of years you'll be ready to raise the money to expand." Next time, I told her, she should make sure it's a loan. When entrepreneurs are starting out, they think equity is cheap because it doesn't yet have value, but it will become valuable if your business succeeds. In fact, it's the most expensive thing you can give away. So borrow the money if you can and pay interest.

Whatever Judy ultimately decides to do, I give her full credit for getting an outside perspective. Often the main obstacle to seeing the opportunity in a problematic situation is that we're too close it.

Norm Brodsky is a veteran entrepreneur. His co-author is editor-at-large Bo Burlingham. They are also co-authors of *Street Smarts: An All-Purpose Tool Kit for Entrepreneurs*. Follow them on Twitter: @normbrodsky and @boburlingham.

SCAN THIS PAGE TO SEE NORM ANSWER QUESTIONS FROM ENTREPRENEURS. (See page 10 for details.)
Do you have a question for Norm? Write to him at asknorm@inc.com.

EVAN KAFKA

Make the World Your Marketplace

Did you know that 95% of consumers live outside of the U.S., but only 1% of U.S. businesses export?[1] If you're a small or medium-sized business, now's the time to consider going global — and we can give you the tools to get there.

You're never too small to export.

SMEs account for **98%** of exporters[2]

Export investments pay off fast.

64% of SMEs saw an export ROI in less than 2 years

More than 34% saw an ROI in less than 6 months[3]

Trade barriers are coming down.

The new Trans-Pacific Partnership free trade agreement would eliminate 18,000+ taxes and trade barriers on American-made products in 11 countries[4]

When it comes to exporting internationally, you're not alone.

From government agencies to experienced service providers, there's a host of organizations ready to help you get started.

U.S. Export Assistance Centers

"Our Small Business Administration export programs increase the guarantee to banks in order to **encourage banks to help companies grow** internationally."

— John Joyce
SBA Export Finance Regional Manager
U.S. Export Assistance Center

Get expert advice:

- At 162 Export Assistance Centers
- In 82 countries
- Or online at **export.gov.**

UPS Advocates

- World-leading customs broker
- Eliminating high tariffs and streamlining regulations and processes
- Helping businesses understand the ins and outs of potential trade agreements

"Our work involves advocacy for trade and customs policies that **break down barriers** in doing global business."

— Leslie Griffin
Senior VP of International Public Policy, UPS

Get free advice on international trade at ups.com/international.

International Shipping Solutions

"In our package cars and trailers and airplanes every day, we are moving 6% of the U.S. GDP and 2% of global GDP, so **we have a big role in trade.**"

— Leslie Griffin
Senior VP of International Public Policy, UPS

- **Millions** of international shipments delivered daily
- **220+** countries and territories served
- **80+** years of customs brokerage experience

For country-specific shipping information, visit ups.com/international.

Trade Organizations and Government Agencies

"I've used the Massachusetts Export Import Center twice—**for free**—to investigate building distribution in Europe and the Middle East. We're now in both markets, partly because of the free consulting."

— Dr. Ted Acworth
Founder and CEO, Artaic

Seek out free resources offered by agencies and trade orgs. A good place to start is the Federation of International Trade Associations — fita.org — which lists more than 8,000 trade-related websites.

[1] https://www.sba.gov/blogs/small-businesses-must-export-east-maintain-us-leadership [2] U.S. Department of Commerce, 2013, http://www.trade.gov/mas/ian/build/groups/public/@tg_ian/documents/webcontent/tg_ian_005369.pdf
[3] UPS Perceptions of Global Trade Survey, 2011, http://thenewlogistics.ups.com/grow/international-logistics-smb/ [4] Office of the United States Trade Representative, https://ustr.gov/tpp/

For more insights on exports, watch the video series at inc.com/ups

united problem solvers™

Money

Spend It Smarter.

"Nobody really likes personal finance—it's not sexy, right? But it actually will impact someone's life. That's what we hope to do."

—SHIYAN KOH, head of business operations at personal finance startup NerdWallet

PHOTOGRAPH BY **DAMIEN MALONEY**

TIP SHEET FREELANCERS

BRIGHT, SHINY TALENT

You can get great freelance help at a great price—if you know the right place to look

ABOUT A YEAR AFTER co-founding the mobile messaging service Tango in 2009, CTO Eric Setton needed more customer service help. So he turned to the then dominant freelancer platform, oDesk. "We were a tiny team, getting thousands of questions every day," he says. Hiring freelancers helped his full-time employees dodge unappealingly repetitive work, thus improving both "service for our customers and company morale."

No matter what sort of high-volume work or specialty one-off task you need done, there's probably a freelancer platform that can help. Increasingly nimble technology is enabling the spread of the gig economy, allowing businesses to "access the exact right skills and people they need at the exact right time," according to an October report by the nonprofit Freelancers Union.

ODesk, now merged with former rival Elance and renamed Upwork, is facing a growing field of competitors, but it's still the go-to platform for Tango, which has 250 full-time employees. In addition to customer service, Tango now regularly uses freelancers for marketing design work such as presentations and email graphics—anything that could distract Setton's full-time workers from their core goals. If you're looking for freelance help but don't know where to start, you might consider these online agencies. —KALEE THOMPSON

UPWORK

A Big Temp Buffet

The merger of Elance and oDesk created what new Upwork calls "the largest global catalog of freelance talent," at least by the amount of business conducted there: Upwork processes about $1 billion annually, for 10 million freelancers with about 3,000 distinct skills. Programmers are the largest single category of "Upworkers," followed by designers, writers, salespeople. There's a wide array of skills: Washington, D.C., real estate developer Aaron Hirsch has hired a freelancer in Pennsylvania to produce a 3-D rendering of a housing project, a designer in Washington State to build a site plan for an outdoor beer garden, and a graphic designer in Chile to create a brochure. Hiring locally, Hirsch says, would have cost him three times as much. "If you go to a local firm, they may say, yeah, we'll get on it in three weeks," he says. "These people are ready to go."

THE BILL The site takes 10 percent of what you pay the freelancers you find there.

BUYER BEWARE With such a huge network, there's a lot of chaff. Expect to cull, and possibly to use trial and error, to find a perfect hire.

POWERTOFLY

Coders With Two X Chromosomes

If you're looking for tech-savvy help, PowerToFly has binders full of remote workers at the ready. "You hear all these big companies say they don't have enough women in tech, but they're kicking the can back 10 years" by focusing exclusively on STEM education, says Katharine Zaleski, a former Huffington Post manager who launched this women-only platform in 2014 with Milena Berry, former CTO of online activism site Avaaz.org. The co-founders, both mothers, have collected more than 62,000 women like them: experienced professionals with tech skills who prefer to work remotely. Programmers, engineers, designers, and web developers populate the pre-vetted network; clients include BuzzFeed, Hearst, and *The Washington Post*. Some workers are overseas: "We're connecting women from low-tech areas to high-tech jobs," Zaleski says.

THE BILL There's a 3.25 percent markup on the fees of American freelancers (2 percent for international workers).

BUYER BEWARE Use this if you need help with big or ongoing projects; the platform isn't designed for jobs involving just a few hours of work. Hiring can take three or four weeks, an eternity compared with some other sites.

The Growing Gig Economy

More than a third of all U.S. workers have freelanced within the past year, according to Freelancers Union

700,000

The number of Americans who have joined the **freelance work force** in the past year, according to an October Freelancers Union survey.

17 million

The number of users on Australian-based **Freelancer.com**, the world's most populated freelancer site.

ILLUSTRATION BY **SCOTT BAKAL**

WORKING NOT WORKING

Top Design, at Top Dollar

Co-founders Justin Gignac and Adam Tompkins come from advertising, and their pre-screened pool of 5,300 freelancers is heavy on designers, art directors, photographers, copywriters, and illustrators (think: creators of Super Bowl spots and the Pinterest logo). "Are you doing work that makes us jealous? The bar is high," says Gignac, whose four-year-old company accepts just over 10 percent of applicants. Each worker's availability is immediately evident from his or her online profile; 40 percent come from the ad world. Apple is the company's biggest client; others include Google, Airbnb, Facebook, and Kickstarter. But Gignac says his team has been surprised by how many small businesses are using the site, as new founders realize that " 'I can't afford to hire all-star talent, but I can afford to rent it,' " he says.

THE BILL Gignac isn't a fan of commissions: Companies pay a flat fee of either $275 a month or $2,750 per year to find and hire all the talent they want.

BUYER BEWARE This is not a site for hagglers and bargain seekers. Around $100 an hour is not unusual for these über-hip creatives.

TASKRABBIT

Live and In-Person Support

Moving help, handyman work, messenger service, home cleaning: TaskRabbit specializes in the type of job that requires a warm body. "The lines between business and personal are constantly blurring, especially for small businesses and entrepreneurs," says VP of marketing Rob Willey, who lists admin help, copywriting, transcription, and data entry as some business-oriented services and says that almost every job is confirmed within five minutes. Founded in 2008, TaskRabbit long used a competitive-bidding approach; about a year ago, it switched to a fixed-price model in which "Taskers" post a set hourly rate. The shift reduced friction in the hiring process, and the past 12 months have been record-setting in terms of business, Willey says. (Mechanical Turk, Amazon's crowdsourcing site, still lets employers set rates, with some workers performing tasks such as data verification at dirt-cheap rates.)

THE BILL The average standard service fee is a steep 20 percent for freelancers.

BUYER BEWARE Though Willey says the average Tasker now makes $35 an hour, the site still has a reputation for low pay, which may affect the level of skill you can find there.

FIVERR

Bargain-Basement Help

Founded in 2010, Fiverr is a catalog-like site with four million listings, including copywriting, web design, video production, and blog writing. Until November, the site required every seller to price something—though not always much—for just $5. "A lot of our most effective sellers know how to price themselves so that $5 is not a problematic starting point," says Constantine Anastasakis, Fiverr's senior director of business development. (The company has now eliminated the $5 rule, though many workers still use it as a starting point.) More than 75 percent of sellers are Millennials, and they appreciate that they don't have to spend time soliciting business, according to Anastasakis, who says freelancer profits are increasing 30 percent year over year in the U.S.

THE BILL The company takes a 20 percent cut of a freelancer's fee, meaning that some of those Millennials might start off making just $4.

BUYER BEWARE If you're really paying five bucks, accept reality. Most of the time, you do get what you pay for.

30,000
The number of **TaskRabbit** on-demand helpers in 19 U.S. cities and London.

22%
The year-over-year increase in Upwork clients that spend more than **$10,000** on IT consulting projects.

3 days
The average amount of time to fill a job posting on **Upwork**; a quarter of its jobs are filled within 24 hours.

HOW THEY SPEND IT

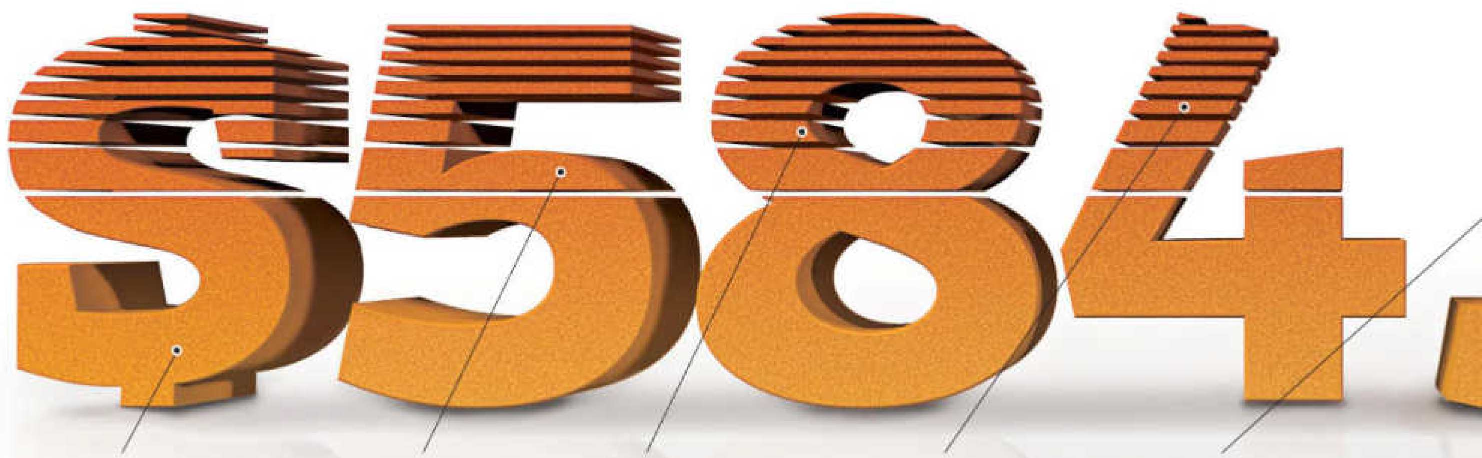
What can you learn from the radically transparent finances of Buffer's founders? Hint: Book tickets to Iceland

FOR A SMALL tech startup, Buffer is unusually open about its finances. The San Francisco company, which provides social media analytics and scheduling services, has publicly chronicled its growth since late 2010, when it landed its first customers. "Nobody spoke about transparency then—you couldn't even buy a tea or coffee with that," says co-founder Leo Widrich.

With 64 employees and $7.8 million in annual sales as of this past fall, Buffer remains committed to its open-book policy. It posts monthly revenue and subscriber figures online, as well as details about its processes for determining employee salary and stock options. The transparency has reaped some immediate benefits, including cost-cutting recommendations from readers of Buffer's blog. They encouraged the company to press its payment processor, Stripe, for a better deal last year, which resulted in annual savings of $25,000 to $50,000. "It has had a very meaningful, graspable effect on our bottom line," Widrich says.

With expert help, we've analyzed Buffer's average monthly spending as of October 2015. Compare and contrast your costs with our annotated guide to Buffer's finances below. —VICTORIA FINKLE

BUFFER'S AVERAGE MONTHLY SPENDING:



SALARIES
$403,000

Salaries for its staff of 64, including base pay and payroll taxes, are by far the company's biggest monthly expense (69 percent). Buffer makes all salaries, and how it determines them, public; when it published that formula, its job applicant pool more than doubled.
ADVICE Buffer may need to raise the $130,000 average salary it pays in San Francisco, where high-tech salaries run to $175,600 on average, according to investment firm JLL. From a retention standpoint, "to have everyone's name and salary out there is a little risky," Coughlin warns.

SOFTWARE, SERVERS, AND HOSTING
$64,853

Because Buffer provides digital services, 11 percent of its monthly costs are for software, database hosting, analytics, and email marketing.
ADVICE If you can promise your software vendors more business or a longer contract, you can usually negotiate for better rates. Buffer is considering an Amazon cloud computing service that offers discounts in exchange for one- or three-year contracts.

TAXES
$28,000

Buffer is registered as a C corporation; it pays taxes as a separate entity, instead of on the personal tax returns of its owners, as S corporations and LLCs do.
ADVICE Companies must generally be registered as C corporations to go public, and the status is preferable if you're offering stock options to employees (which Buffer does). If going public "is the goal, they're on the right track," says Gail Rosen, a CPA. "They're not worried about getting money out to the owners."

CREDIT CARD PROCESSING
$23,319

Buffer has negotiated several reductions from Stripe. While the standard charge is 2.9 percent plus 30 cents of every transaction, Stripe has lowered the percentage (though not the fixed 30-cent cost). About 4 percent of Buffer's revenue now goes to Stripe, down from more than 5 percent before.
ADVICE "Whenever you grow by another $100,000 in monthly revenue, check in with your payment provider to see if it can lower fees, since you're creating more volume for it," Widrich says.

EMPLOYEE RETREATS
$19,267

With workers scattered across the world, Buffer schedules several all-staff retreats per year—to places like Reykjavik, Iceland. The July trip cost $152,065.
ADVICE Most companies spend an average of 1 percent of revenue on business travel, according to the Global Business Travel Association. Buffer spends three times that amount, to good effect: It developed its business services suite in Thailand and brainstormed its video-sharing platform on the Iceland trip.

REVENUE BREAKDOWN

Buffer's revenue currently exceeds the firm's costs, but the company is putting everything back into the business. "We don't feel that accumulating a profit at this stage is the best thing to focus on," says Widrich. "We'd like to have revenue and company spending on the same trajectory, so we can be sure to put our money to the best use."

COMPARISON Comparable firms in the "data processing, hosting, and related services" industry bring in an annual average of $200,000 to $220,000 per employee, according to database ProfitCents. At just over $7.8 million in annual revenue, Buffer was averaging closer to $122,000 per worker this past fall, which the company needs to improve, says Carol Coughlin, founder of BottomLine Growth Strategies, a financial adviser to small and medium-size businesses. Her advice: Buffer should convert more nonpaying users to paid plans, and increase the costs of those plans by a few dollars per month. "The valuation for this kind of company is driven so much by subscriptions—recurring revenue is golden," she says.

ILLUSTRATION BY **VASAVA**

BUFFER'S BOTTOM LINE

MONTHLY COSTS: **$584,969**
MONTHLY REVENUE: **$650,478**
WHERE IT COMES FROM: Buffer offers basic services for free, and then sells subscriptions ranging from $10 to $300 or more per month
NUMBER OF REGISTERED USERS: **2.8 MILLION**
MONTHLY ACTIVE USERS: **226,445**
PAYING CUSTOMERS: **46,116**

CEO JOEL GASCOIGNE
The co-founder earns Buffer's highest salary, $175,000 as of October; the lowest, for customer service workers, was $57,000.

COO LEO WIDRICH
The other co-founder was bringing in $161,000 as of the fall, or less than twice the then average employee salary of $92,000.

"People will say, 'I know more about your company than the one I work for.'"

EQUIPMENT AND COMMUNICATIONS
$14,221

As Buffer has expanded from 25 employees to 64 (63 full time), so have costs for its (virtual) office supplies. The company covers computers and other home-office equipment, including monitors and stands, as well as employees' phone and internet services.
ADVICE This spending seems appropriate right now. The company should be able to negotiate better group rates on phone and internet plans as it grows.

MARKETING, LEGAL, AND ACCOUNTING
$12,496

The company contracts with Foresight for accounting and payroll services and works with a legal team at Wilson Sonsini Goodrich & Rosati. It also plans to ramp up spending on marketing.
ADVICE Start spending more. Most comparable firms spend twice as much as Buffer on marketing, according to ProfitCents. In-house legal and financial expertise also becomes critical as you grow, which Buffer realizes: It just hired its first full-time financial planner.

CO-WORKING SPACE
$9,558

Buffer closed its San Francisco office in October, since too few employees were using it. Instead, the startup covers co-working memberships for those who want them (an estimated 15 to 20 percent of people).
ADVICE It's a smart move for now. But Marc Effron, president of Talent Strategy Group, warns that the company might need to reestablish a central workspace as it grows, to encourage more "face-to-face collaboration."

INSURANCE
$8,000

Only $250 is business insurance. Buffer covers 100 percent of a Blue Cross plan for U.S. workers and 50 percent for spouses and dependents. Plans include dental and vision, and total costs per domestic employee come to about $400 to $500 a month. The company saves money on some employees located in countries that provide public health care.
ADVICE No big changes needed. Buffer's done well at keeping health care costs down, in part by hiring employees who live abroad and thus cost less to cover.

PERKS
$2,255

Buffer supplies every employee—and immediate family members—with a free Amazon Kindle, with unlimited books, and a free Jawbone wristband that tracks daily activity and sleep. But unlike many tech startups, it didn't provide meals at its former offices, because it didn't want to provide a perk only to some employees.
ADVICE Freebies abound in Silicon Valley. But so far, Buffer has managed to offer a lot for little cost: "The Kindle books and activities are frankly a small expense in the scheme of things," says Coughlin.

COURTESY COMPANY (2)

Interest rates are finally going up. Do this now and your money will be just fine

FIRST OF ALL: Don't panic. Yes, after a record seven years of near-zero interest rates, the cost of money is finally on its way up. And with all the endless speculation about how you'll be affected by what the Federal Reserve does, it's easy to feel like you should do *something* in response to what, at least in the media, seems like a pretty big deal. Are your investments safe? Did you miss your window to refinance your mortgage, or to apply for an affordable business loan?

It's a little like rushing out for flashlight batteries during a hurricane warning: You know you have plenty in the drawer, but you're still worried about being caught short. But if you already have a stockpile of good batteries—or in this case, if you have an investment portfolio filled with different types of stocks and bonds—there's no reason to make any sudden moves. "This shouldn't cause any major repercussions," says Christine Benz, director of personal finance at Morningstar (which shares an owner with *Inc.*). "We've all been waiting for this for the past five years."

That economic holding pattern means the stock and bond markets long ago "priced in" interest-rate increases—meaning you shouldn't see too many drastic short-term hits to your portfolio in reaction to future Fed moves. After all, it's not so much rate hikes as the element of surprise that really shakes up markets. "This is going to be a very gradual process by the Fed. I can't see rates skyrocketing," says Warren Cohen, my portfolio manager and the managing partner of Clearfront Advisory, a New York City financial advisory firm.

To best ride the interest-rate tide, your investments should be diversified, with a mix of stocks and bonds. Unless you're a large investor, it's probably best to own bonds through mutual funds, because fund managers can always add higher-rate bonds to the portfolio as rates go up; that will eventually increase the income the fund throws off and reward you for hanging on.

Change Agent
Seven years after the worst of the financial crisis, the U.S. economy is "pretty strong and growing at a solid pace," Federal Reserve chair Janet Yellen (above) said in November. The UC Berkeley economist had spent more than a decade in government, including stints as the head of President Clinton's Council of Economic Advisers and as the Fed's vice chair, before President Obama nominated her for the central bank's top job in 2013. She is the first woman to run the Fed in its 100-year history.

5.25 PERCENT
The Fed's target interest rate the last time it raised rates—10 years ago in June.

In the short run, though, expect your bond funds to decline in price when rates rise, with the biggest blows falling on funds that bet on long-term Treasuries and municipal bonds. Funds that hold short- and medium-term securities won't be hit as hard. Cohen additionally advises getting rid of junk funds, which invest in bonds with grades of single B-plus and lower. They tend to be loaded with debt from energy companies, which have had a rough go of it lately.

Rising interest rates will also affect stocks, of course, but that fallout is more difficult to predict. It will translate into higher borrowing costs, which could make consumers warier of spending. And if you own any concentrations of particular stocks, now is a good time to reassess. Some industries are especially rate-sensitive; for example, capital-intensive utility companies tend to see their stocks lose value when rates rise. "High-quality bonds are somewhat mechanistic—when rates go up, their prices fall," Benz says. "Stock prices, by contrast, are influenced by many additional factors," including economic growth and valuations.

Now is also a good time to review your debts. Credit card interest rates will probably go up, so pay down any balances you can. If you're thinking of buying or leasing a car, lock in a low rate now. And consider refinancing any adjustable-rate mortgage into a fixed-rate loan. But things could be looking up for your business financing needs. While loans will become more expensive, banks may find them less risky and more profitable—so it might become slightly easier to get traditional credit. (There's also a quickly proliferating array of non-bank small-business lenders.)

Finally, take a minute to feel excited. While Fed rate hikes can sound like bad news, they're a vote of confidence in the economy. We've come a long way from the dire unemployment and uncertainty of the financial crisis. There could even be a silver lining in your bank statement: A recent informal Morningstar survey found hope that the Fed's moves will eventually yield better returns for savings accounts. "They were like, 'Bring it on,'" Benz says. "I was frankly a little surprised, but it has been a war on savers."

ALINA TUGEND *is a New York City–based journalist and the author of* Better by Mistake: The Unexpected Benefits of Being Wrong.

DOUG MILLS/REDUX

HEAD NERD
Tim Chen, in his sign-posted (right) office, is relentlessly inquisitive: "It's just a waste when people don't find the right answer."

The Answer Man

NerdWallet co-founder Tim Chen wanted to build a personal finance company that would provide smart, unbiased information. He could have used some in overcoming his company's near-death experience

By **MARIA ASPAN** • Photographs by **DAMIEN MALONEY**

TIM CHEN WANTS TO buy a house. This shouldn't be a problem: Though only 33 and shopping in the heart of bubblicious San Francisco, the former hedge fund analyst knows almost everything there is to know about personal finance. He's also worth something like $265 million on paper. But Chen, characteristically, wants to consider almost. Every. Option.

"I wanted to test out the process," he tells me, in the midst of a fast-paced yet halting monologue about shopping for, qualifying for, and closing on a home. Short and trim, his button-down and jeans accented by black hair in an unexpected hipster pouf, Chen is quietly intellectual, deeply self-critical, and the sort of conversation partner who struggles to keep pace with his own thoughts. It leads to a lot of elliptical discussions.

It's early October, and Chen and his girlfriend are in the latter stages of buying a single-family house in Corona Heights. As he started this ordinary but complex task, he wanted to really understand the range of financing available to him—so he asked three different lenders to prequalify him for a mortgage. It's what Chen's company, NerdWallet, does: review the strengths and weaknesses of financial products for three million monthly web visitors.

Founded as a credit card marketing website, NerdWallet aims to become the information clearinghouse for everything financial—a more curated "Yelp for finances," as employees and analysts put it. The firm's credibility rests largely on the same exhaustive trial-and-error process that landed Chen his new home. That attention to every detail, and careful consideration of every possible decision, seems rooted in Chen's deep-seated anxiety about making the wrong choice. It also reflects a terrifying early failure—a layoff that cost NerdWallet a fifth of its employees. Now Chen's even more determined to never underthink anything ever again.

> "Most consumers want to know that they can trust somebody who is not beholden to one financial institution."
>
> **—DAN YOO,** NerdWallet COO

That obsessive focus has also helped him break into the vast, if fractured, market for financial advice. The competition is led by Bankrate, the $1.4 billion market-cap company that owns sites including CreditCards.com, but which has taken some dings of late. There are other newcomers, including Credit Karma, and old-guard boomer investment houses (Fidelity, Vanguard, Schwab). There are Millennial-focused robo-advisers and wealth managers (Wealthfront, Betterment); lead-generating sites focused on mortgages or stocks (Lending Tree, The Motley Fool); personal budgeting advisers or insurance specialists (Mint, Zenefits); health data providers (WebMD); and tons of websites and magazines with personal finance advice, including this one. Not to mention that for decades, every major bank and insurance company, from Citi to Prudential, has tried to push the idea of a financial supermarket.

NerdWallet's approach certainly fits a post-financial crisis world facing demands, particularly from Millennials, for financial transparency. The company's appeal rests on its Yelp-like breadth of information, and its efforts to shine a light into some dark and cluttered corners of the money universe. Mercator Advisory Group analyst Alex Johnson praises its "spectacular transparency," and consultant Jo Ann Barefoot, a former deputy Comptroller of the Currency, says NerdWallet is "out in front on the whole issue of evaluating and rating and creating access to feedback on financial companies, which is a massive trend." Indeed, NerdWallet claims it can be "a source of truth" for pretty much any financial question, with "financial" defined broadly: What sort of earthquake insurance should you get if you live in California? What's the best sort of online loan if you want to open a second location of your business? Which credit card stands the best chance of yielding free seats to Maui?

Type one of those questions into Google, and you'll likely find a NerdWallet article written by one of its 70 staff writers. Or go directly to the site and find lists of NerdWallet's favorite travel credit cards, or recommendations of no-fee checking accounts, or rough quotes for car insurance by ZIP code. You can submit almost any other question about your finances, and await a response from NerdWallet's network of advisers. Chen's on a quest to anticipate every single one of those questions—and to have a clear, unbiased, logical answer for you. "It's just a waste," he says, "when people don't find the right answer—and no one is benefiting. Not the person who's fumbling around, not really any financial institution. Everyone loses, and it's stupid, and the internet should have fixed this a long time ago."

Of course, if it had, Chen wouldn't be running a consistently profitable business that investors currently value at $520 million. The company has 285 employees, with plans to hire an additional 135 by the end of this year, and annual revenue projected to clear $100 million by then. In early 2015, Institutional Venture Partners led the company's first outside financing, a far cry from the $800 that Chen used to start the company. "NerdWallet's still a medium-stage company, but with late-stage financials," says IVP partner Jules Maltz. "It's a little bit like the seventh grader who can dunk a basketball."

And like any precocious adolescent, NerdWallet has weathered some fierce aches along with its success. "It's constant growing pains, but it's different growing pains," says Jake Gibson, Chen's childhood friend and co-founder.

Those pains are not immediately evident today—the Market Street headquarters in San Francisco is brimming with the usual signs of startup achievement: the nap room, the foosball table, the dogs trotting after their owners, the endless parade of catered lunches and gourmet-yet-gluten-free carbs.

Less usual are the office's Soviet-size signs, exhorting employees to "Relentless Self-Improvement" and to prioritize "Consumer Company Team Self." Assembling for the Monday-morning all-staff meetings means having to pass NerdWallet's "fail wall," spotted by cheerfully bright Post-it notes marking mistakes serious and trivial, professional and personal. ("Forgot anniversary." "I did not secure a profitable exit for my last group of investors." "My first year out of college, I made $10,000." "I have overly aggressive timelines, because I am impatient.") Chen has at least four up there. It's a daily reminder of the many challenges facing NerdWallet's mission to be all things financial to all people. Or as Chen repeats, "We just keep iterating."

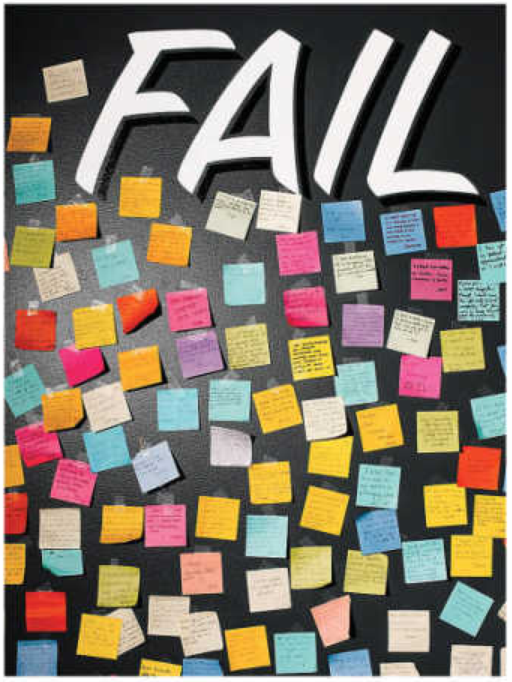
SEARCHING FOR ANSWERS

The self-proclaimed nerd met his co-founder in Atlanta, at the local math-and-science magnet school. Chen's parents, computer scientists who left Taiwan to study at the University of Oklahoma, had just moved the family from Houston, and Chen and Gibson bonded over teenage pursuits both nerdy and not: math and engineering clubs, "hanging out at the mall, doing things that are borderline illegal," Gibson recalls. After college, they both wound up in New York City, in finance, and in apartments on the same Murray Hill intersection.

Those quickly became dark days. Gibson survived a purge of JPMorgan Chase's trading businesses, but Chen was fired by his hedge fund in December 2008. "Half of my friends who had been working in finance were unemployed," Chen says. "We would go to Dave & Buster's in the middle of the day, because what else was there to do? They have half-price tickets on Wednesdays."

Eventually, Chen, who'd wanted to be an entrepreneur since his Stanford days, recovered the dream for family reasons: His older sister, whom he had followed to college, asked him for advice on which new credit card to get. His parents, around the same time, wanted his advice for buying into a mutual fund. His expertise was in trading tech and media stocks, not picking credit cards or retirement funds, but a quick online search quickly disgusted him—why wasn't there a better-designed, transparent, unbiased website that would answer his family's questions without trying to push a specific product on them? Cue a lot of trial and error, a year spent subsisting on Subway sandwiches and Domino's pizza, some low-level recruiting of his other college buddies, and a Christmas week spent in a Starbucks, manually entering all the information he could find on the nation's then 7,400 credit unions into an Excel spreadsheet. "I spent six months trying to build a credit union tool, and only got 10 links out of it," he confesses on the fail wall.

Still, the marketing side of the credit card business was a lucrative launch pad. Banks pay steep finder's fees to partners that bring them the best customers, since what those consumers will spend every year far exceeds those fees. According to COO Dan Yoo, NerdWallet earns anywhere from zero to "hundreds of dollars" for every person who comes to its website, clicks through, applies for a credit card, and is approved. That business still accounts for the vast majority of NerdWallet's revenue. About 5 percent of people go from reading to buying a product; while the click-through rate has held steady, overall traffic has tripled in the past three years.



ALL HAIL FAIL
And try, try again. NerdWallet employees (and founders) confess their shortcomings on the headquarters' "fail wall."

Chen was hardly the first to discover this source of revenue. "The base case was Bankrate 2.0," says Shiyan Koh, a Stanford friend of Chen's who now runs NerdWallet's business operations. Like Bankrate and Credit Karma, NerdWallet is benefiting from banks' willingness to flood the internet with money, creating rivers of funding for the third-party companies that bring them business. The likes of JPMorgan Chase, Bank of America, and Citi spent a projected $7.2 billion on digital advertising in 2015, making financial services the third-largest industry spender, according to eMarketer, which estimates that industry total digital spending will rise to $10.9 billion in 2019. "Banks really didn't fully anticipate this shift to digital shopping for credit cards or other products," says Mercator's Johnson. "It left the whole field open as to who would be the unbiased information provider."

And Bankrate, while still dominant, has had its struggles, ranging from a creaky website design to an accounting scandal that cost $15 million to settle with the SEC last year. That's left NerdWallet room to position itself as an honest broker for cards and other products, including checking accounts, insurance, mortgages, and online loans. The company gets paid on a percentage basis for some of those products, like the loans.

Where NerdWallet is trying to set itself apart is in the presentation, breadth, and transparency of the bank products it shills. While the company accepts money from big banks, it still points out the less attractive features of some of their products. Not all the time—on its website, many credit cards

only have "pro" analysis, with no "cons" listed—but it's made more than a token stab at providing independent information along with the sales links. And Johnson argues that this devotion to objectivity and transparency actually makes it more valuable to the banks that pay its bills. "NerdWallet stands out," he says. "It's very nice, very clear; some of their competitors are busier. It helps them attract users, which is ultimately what any bank is going to care about."

Indeed, with its "newsroom" of staff writers around the country, NerdWallet is as much content creator as financial company. The company's journalistic endeavors are also the secret behind its fast growth—it can flood Google with a lot of professionally written news articles instead of buying SEO or paid marketing. It means that when you type in *What's the best cash-back credit card?* search results will likely produce NerdWallet citations first. And by hiring journalists to write stuff that many high-profile news companies would and indeed do publish (*USA Today* and Time Inc.'s Money.com among them), NerdWallet boosted its visibility and its credibility. "Most consumers want to know that they can trust somebody who is not beholden to one financial institution," says Yoo. "They're worried that they don't know the right answers and they're going to make a mistake. We want them to have the confidence that they're making a good solid decision."

While NerdWallet is benefiting from widespread distrust of the old financial establishment, Chen's motivations are simpler and broader: He absolutely loathes not having the right answers. "There are so many things I've done the stupid way," he says, "just brute forcing my way through, and then I turn and look and ask, 'Why in the world didn't someone tell me not to do that?' I just want to help people break out of that."

There's more than a little of the lonely, awkward teenager still peeking through Chen's designer sneakers and unfailing if sometimes stiff courtesy. "I have immigrant parents; they didn't teach me a lot of things," he says. "In my first finance job, I didn't know how to play the game. And in my current situation, it's the same thing. It's like, 'Why didn't someone just tell me what to do last year? It would have saved so many headaches for so many people.' "

HARD CONVERSATIONS

Stumbling up the learning curve is a familiar experience to entrepreneurs of all backgrounds, although many would gladly swap their problems for Chen's: NerdWallet's growth is what occasionally threatens to outstrip his ability to manage it. As Koh puts it, "Tim has this great belief: 'Yeah, you're smart. You'll figure it out. You can do anything for a little bit of time.' But when you have 250 employees, it's a lot harder to say, 'Hey, smart people, go figure it out.' "

Chen and Gibson also had a fairly narrow definition of "smart" in the company's early days; the default was to recruit people with their sort of experience, who might have spent much of 2009 playing arcade games in Times Square while waiting for callbacks from big-bank headhunters. "Many of our early employees came from professional services and financial services, where you try to hire the same kind of person—the overachiever who is very performance-oriented," Koh says. "Building a company is totally different."

By summer 2013, about four years into NerdWallet's existence as more than a collection of spreadsheets on Chen's laptop, he says he became increasingly aware that his "hire smart people; let them figure it out" philosophy meant a fifth of his small company wasn't playing well with others. He'd instituted a very traditional management style: businesses organized by silos, with each silo leader responsible for his or her team's success. That structure soon led to some winner-take-all tactics among NerdWallet's different units.

According to Chen and his lieutenants, one executive in particular aggressively staked out content partnerships and projects that didn't fit into his idea of the company culture, and "treated conversations as things that had to be won, versus joint problems to be solved," Koh says. (That manager declined to comment.) Then, Chen says, the executive started

"We have such a smart, intellectual group that there is a little bit of analysis paralysis."

—CHRISTINA LaMONTAGNE
head of NerdWallet health

hiring subordinates who compounded the culture-fit issue: "The first signal," he says, "is when your hirers start hiring people, and you're like 'Really?!' And what gets even worse is the second one, then the third one."

He tried bringing in management coaches to work with senior executives. He sought advice from other tech entrepreneurs. Finally, Chen realized, he was going to have to take more drastic action. "It's extremely gut-wrenching," he says, but it's also "the nature of startups. When you make mistakes, it affects other people and it's really terrible."

By December 2013, Chen finally let the ax fall, firing 11 employees—20 percent of his work force. It was two days after the holiday party. Then he had to tell his remaining staff what had happened. He's still visibly uncomfortable addressing groups—"He's not a 'Go charge the mountain!' leader," Koh says—but this meeting was particularly terrible. Hands shaking, voice shaking, more pale than Gibson had ever seen him, Chen got up to tell his employees that a bunch of their colleagues had been let go. His performance didn't get high marks: "He's just a bad speaker," says Maggie Leung, the ex-CNN journalist who runs NerdWallet's newsroom. As Gibson recalls, Chen tried "to

give a reassuring speech about 'This is my fuckup. Now it's our responsibility to get better at this.' It was brutal."

ANALYSIS PARALYSIS

That meeting was an inevitable turning point. Spurred into action, Chen set out to ensure he wouldn't make the same mistakes again: He hired more executive coaches; established a formal performance review; and, in March 2014, hired Yoo, LinkedIn's head of business operations, as chief operating officer. Yoo essentially replaced Gibson, though the co-founders call their split mutual and amicable; Gibson remains an adviser.

Perhaps most dramatically, Chen radically changed the company's organizational structure. Instead of silos, he fashioned a matrix, which contains a more horizontal—and more complicated—reporting structure that requires near-constant communication among NerdWallet's leaders. While that eased the company's old growing pains, it's created some new ones. Just ask NerdWallet executive Christina LaMontagne: "Sometimes the management team feels that we're in our own way."

WIDE OPEN
NerdWallet HQ reminds employees that its success rests on what analysts call its "spectacular transparency."

She had a first-hand view of that last year, as the company developed, and then dropped, a health care project despite widespread customer interest. A former health care consultant and venture capitalist, LaMontagne joined the company in 2013 as its "entrepreneur in residence," in charge of what could be NerdWallet's most promising business: solving the complexities of health insurance, for both employers and their employees.

It's hard not to root for what NerdWallet could do here, if it can actually do it: While you might not need yet another way to pick a credit card, you absolutely do need help figuring out which health care plan to pick, how much you might spend on top of that, and whether you've been overcharged on one of those ridiculous "explanation of benefits" missives.

LaMontagne has helped the company develop tools to address those problems, including an advice section that responds to readers' questions; a tool that ranks and assesses the best health care plans by state; and a medical-advocacy service that deciphers customers' bills and argues with insurance companies on their behalf. NerdWallet says the service (for which it doesn't currently charge) has saved some 1,000 customers a total of $250,000 so far. "There isn't really a lot of good content out there about where your health meets your money," LaMontagne says. If, for example, "you have diabetes, our content can help you get ahead of what your costs will be for the year. Or, if you're pregnant, we have guides on the type of financial decisions new parents need to make."

For much of last year, she focused on launching a service for employers. The subscription-based program, which NerdWallet piloted with about 10 businesses, would have helped their employees manage the health care enrollment process.

That service attracted unexpectedly strong interest from "some of the largest companies in the world," including Silicon Valley tech giants, says LaMontagne. Yet by early December, as this article was going to press, NerdWallet had abandoned the pilot to focus more on its direct-to-consumer products.

Ditching or postponing new services is par for the course for expanding startups. But even in early October, customer interest notwithstanding, LaMontagne seemed to be bracing for disappointment. "In a different type of organization," she said then, practically vibrating with suppressed frustration, "we would be going full force. We have such a smart, intellectual group that there is a little bit of analysis paralysis."

That's a charge Chen readily cops to. "I'm not the greatest communicator naturally," he says. "The strategy part [of running the business] is actually the super easy trivial part. It's the organizational communication that's super hard." It's a strange admission for a CEO whose company mission statement includes "healthy relationships, hard conversations," but it's characteristically NerdWallet: transparent, glaringly self-critical, not always comfortable.

It's hard not to wonder if some of these conversations might be more comfortable with a more natural communicator at the top—or at least someone who hasn't written that his goal as a CEO is to "make myself obsolete." But Chen, whose employees regularly dub him the "conscience" of his company, plans to stay for the duration. Yoo claims that he could have sold NerdWallet and been "generationally wealthy"; instead, Chen's trying to finish closing on one house, while contemplating a responsible financial future with his girlfriend. His wealth as majority owner of NerdWallet might be mostly on paper right now, but he confides, as his personal success becomes more real, "I'm really afraid that my kids are gonna turn out to be some really fucked-up people. I want the company to do well. But at the same time, there is absolutely no upside of becoming filthy, stinking famous or well off."

And then there's his second, correlated big long-term fear—one that many entrepreneurs might recognize: "Just being a shitty CEO." It all comes back to a fear of not finding the right answers, like "setting the wrong direction and not being able to figure out what's impeding our growth," Chen says. "It's a new thing every two months. It's like, 'You better solve this thing, because something else is gonna pop up two months from now,' and it's just like this constant game of whack-a-mole. Experience helps, but sometimes, man, it's really hard."

MARIA ASPAN *is an* Inc. *senior editor*

SPREAD THE WEALTH

Helaine Olen

Stop Feeling the Burn

Heed these warning signs that your company is spending too much

YOUR BURN RATE IS often the financial version of faking it till you make it. It can be impossible to grow a business to scale, or to much of anything at all, without using up money as quickly as you find it. But knowing the difference between needed and wasteful spending is crucial—and easier said than done.

The current startup climate doesn't encourage fiscal restraint: Companies like Uber and Airbnb have been generously rewarded with market share and growing revenue despite (or perhaps because of) their lavish burn rates. But we're starting to see high rollers falter: Consider the founders of the late housekeeping service Homejoy, who spent $40 million in venture funds only to discover they couldn't clean up in the on-demand economy.

It makes sense, then, that there's mounting debate in Silicon Valley and on Wall Street over startups' spending habits. Y Combinator president Sam Altman says more than a few founders make no distinction between necessary and unnecessary outlays. Cassandra-like warnings are multiplying from star venture capitalists, including Marc Andreessen, Bill Gurley, and Chamath Palihapitiya.

So when exactly should you start worrying about your spending?

First, check your internal benchmarks: If you're missing your targets, consider yourself warned. "Businesses should burn cash only for specific reasons, like growing to a critical mass of users or getting a product to a certain stage of development," says Marc Prosser, co-founder of Marc Waring Ventures, an operator of specialty media sites.

One example of an unnecessary expense: fancy digs, no matter where you're located. "Companies should not burn through cash on noncore expenses like nice offices and perks," advises Miriam Diwan, a former portfolio manager and the co-founder and CEO of NowMoveMe, an online neighborhood-recommendation platform.

Yes, you may be competing with venture-rich companies that can afford luxurious offices, free massages, and an unlimited supply of fancy snacks and catered meals. But, as Diwan warns, you want to hire people who are motivated by more than free food. For young companies, "the employees looking for Facebook or Google levels of perks are not the best fit," she says. "The early years are a complete roller coaster, so it's essential to have a team that's in it for more than that."

Next, watch your reserves. Anything less than six months' worth of cash on hand should trigger an immediate spending reassessment. Wait any longer, and you'll almost certainly run out of money and be forced to close up shop. That almost happened to Dev Chanchani: Back in 2000, his fledgling tech company, INetU, was burning through about $100,000 a month. But he had $2 million in angel funding, which he thought gave him plenty of time to work out the kinks in his business. Until, that is, that tech bubble burst, and his lines to future financing dried up.

Chanchani credits his company's survival to his father, who had urged him to plan for a potential cash crunch. He shut down two of his company's three businesses to focus his remaining funds on its more promising hosting services, and laid off 40 percent of his staff. "You need a clear line of sight between every dollar you burn and the growth in the business," he says now.

That's a lesson smart founders of this generation of startups are taking to heart. Just ask Jody Porowski, co-founder of online-advice website Avelist, which she funded by selling her North Carolina home. Her mentors want her to spend on hiring marketing and business development staff. But Porowski is waiting until she gets venture backing, or starts bringing in more business.

"I do believe in spending money to make money," she says. "But I realize how hard it is to actually raise money. As a pre-revenue company that currently runs off investment, I want to stretch our funds out as long as possible."

Helaine Olen is a veteran personal finance journalist, the author of *Pound Foolish: Exposing the Dark Side of the Personal Finance Industry*, and the co-author of *The Index Card: Why Personal Finance Doesn't Have to Be Complicated*.

GREG KAHN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SURE MONEY
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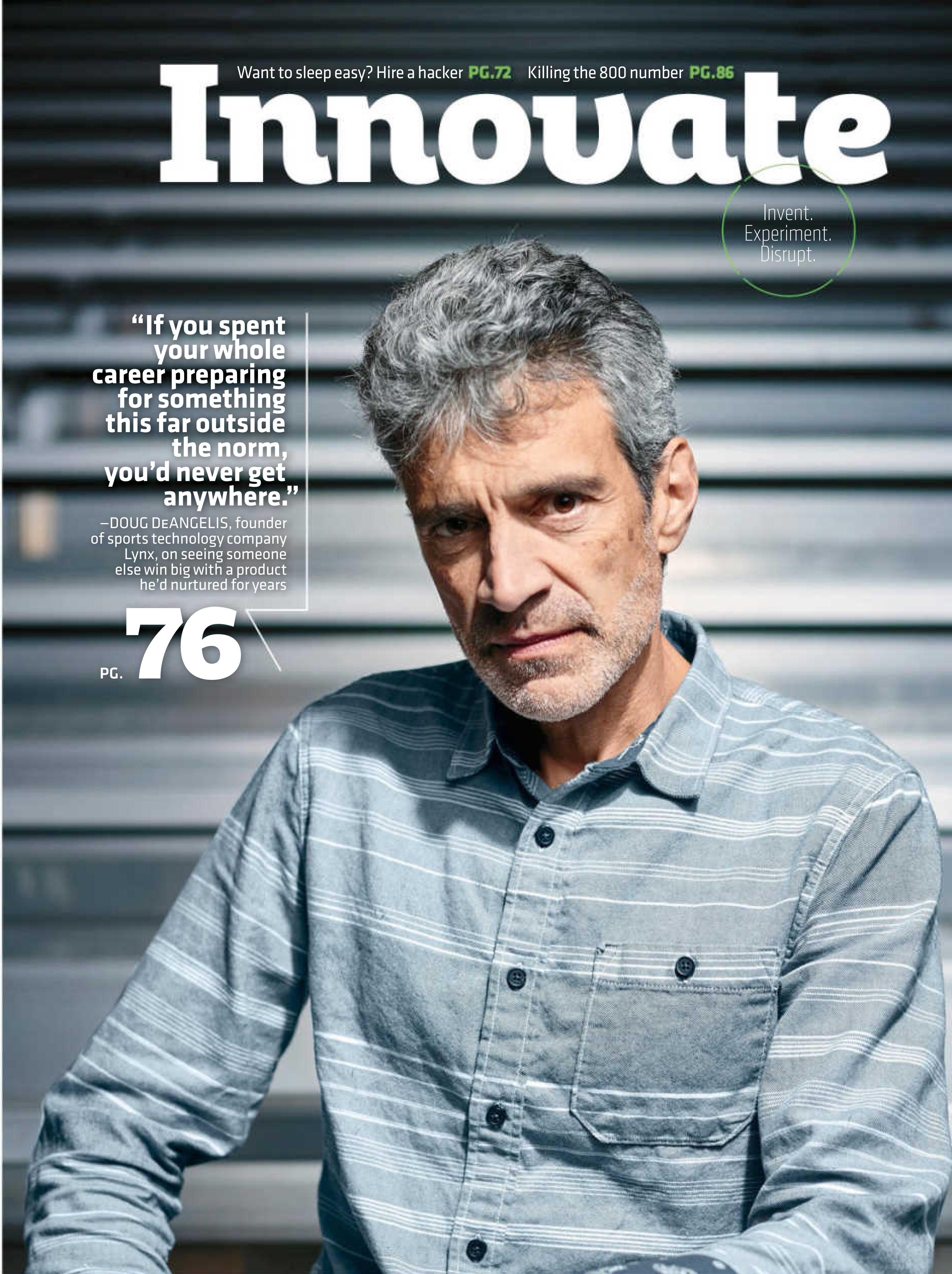

Want to sleep easy? Hire a hacker PG.72 Killing the 800 number PG.86

Innovate

Invent.
Experiment.
Disrupt.

"If you spent your whole career preparing for something this far outside the norm, you'd never get anywhere."

—DOUG DEANGELIS, founder of sports technology company Lynx, on seeing someone else win big with a product he'd nurtured for years

PG. **76**

PHOTOGRAPH BY **CHRISTOPHER CHURCHILL**

TIP SHEET CYBERSECURITY

Hiring Hackers

Want to strengthen your digital security? Pay someone to break into your software—and your systems

LAST MAY, UNITED AIRLINES, still struggling to integrate its computer system with Continental's following the merger of the two companies, issued an open call to hackers. The challenge: to locate and report security holes on its website, with airline miles as an incentive for successful finds. Uncovering a scripting flaw could earn 50,000 miles, while a vulnerability that allowed denial-of-service attacks could score 250,000 miles. Within two months, the Chicago-based carrier had shelled out 1.8 million miles for several bugs, including two so-called remote code execution flaws that could have let a hacker take over United's system.

United's experience reflects a sobering truth: No matter how many hours your digital team sweats it out in front of a computer, they're never going to find and patch every vulnerability. And even if you pay an outside firm to do the job, it almost certainly won't find everything either. But a boundless, global army of hackers who are paid only when they unearth security bugs? Now you're talking.

Once the purview of tech giants like Facebook and Google, this model has gone mainstream. Today, hundreds of companies host so-called bug-bounty programs spanning apps, software, and company networks. Some companies have invitation-only programs. Many post program guidelines on their websites, including a schedule of payouts based on the seriousness of a flaw.

So how do you throw open your arms to ethical hackers without wasting your time or—far worse—exposing something critical that someone can exploit? A few pros share their insights.
—KATE ROCKWOOD

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Start With Self-Scrutiny

Eager as you might be to get going with a public program, your first step should be internal testing. "If you don't have your house in order or your security is terrible, researchers could swarm you and it'll be harder to sift through what's legitimate," says Manoj Kasichainula, head of security at San Francisco–based Asana, which makes team productivity software. And if you're flooded with duplicate reports, you'll either spend a lot of extra money or, if your program is first come, first served, annoy a lot of hackers.

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Don't Fret a Small Budget

You don't have to flash a big payout to attract talented hackers. Sure, Google has shelled out more than $4 million over the past five years. But companies from Apple to Airbnb run programs with no monetary reward at all, instead shouting appreciation from the digital rooftop. "I think linking to people is rewarding, so I'll always ask if they want to include their LinkedIn or Twitter URL," says Grant Stavely, a senior security engineer at Evernote, a Redwood City, California, maker of productivity apps. To stretch the prize money you have, set parameters around what you're willing to pay for. When Helsinki-based F-Secure launched a bounty program in November, it included most consumer and corporate products but not bugs on the company's main webpages. "Our website is like a promotional face," says security adviser Sean Sullivan. "It's far more important that our products and customers are secure." Payouts don't have to be huge, either. According to security specialist Bugcrowd, the average payout for the more than 300 programs it helps manage is $250 or so.

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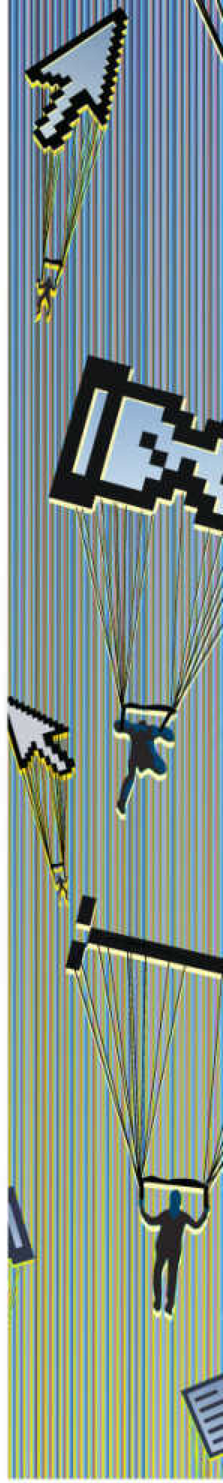
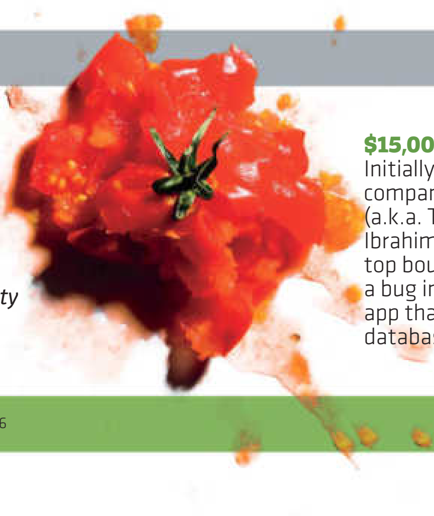
Think Through the Workflow

When hackers spot a bug, where do those emails go? Who vets the reports to determine whether the bug is legit? "You need people



BUG BOUNTY BALLERS

Companies with a lot at stake in their data security have ponied up some major prizes



$15,000
Initially heckled for awarding company swag as bounties (a.k.a. T-shirtgate), Yahoo gave Ibrahim Raafat of Egypt its top bounty in 2014 for spotting a bug in Flickr's photo-printing app that left its server and database vulnerable.

$33,500
in 2013, Facebook paid Brazil's Reginaldo Silva one of its largest bounties for exposing a bug that could let a user hijack someone else's computer.

SPREAD FROM LEFT: DAVID DE STEFANO/GETTY; JOSEPH CLARK/GETTY

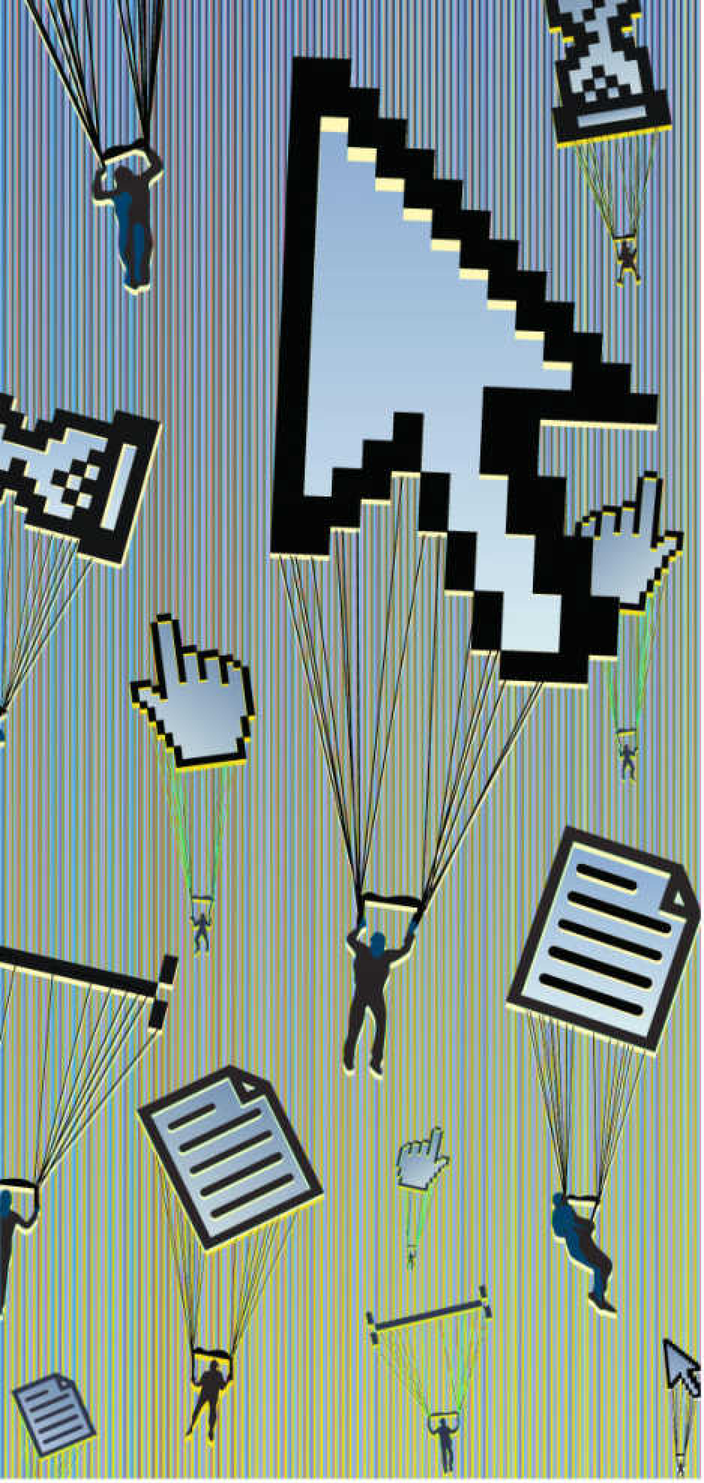


ILLUSTRATION BY **DANIEL HERTZBERG**

with good judgment on the frontlines, because if you have someone who misinterprets the reports, everybody gets really frustrated really quickly," says Kasichainula. There's no way to predict the pace of submissions, but even when your team is inundated, promptly acknowledge bug reports when you get them. If you seem inattentive to user safety, you risk a researcher's disclosing the bug publicly while you're still sorting out how to patch it.

Don't Go It Alone If You Don't Want To

If the idea of coordinating an international payment to a hacker feels somewhat fraught, fear not. Startups including HackerOne and Bugcrowd can help get your program up and running and even manage payouts. "There's a learning curve to running these programs, and when you're just starting out you might be busy enough dealing with the development schedule," cautions Sullivan. But calling in the pros doesn't mean outsourcing the whole endeavor. You might be better off scrutinizing vulnerability reports in-house. Leaving out the middleman when you're working on your own code tends to mean fewer mistakes and faster fixes.

PSSST! THIS BOUNTY IS INVITE ONLY

Before you bring on all comers, you might want to take a trial run

For every bug-bounty program that has a detailed webpage for all to read, there's at least one private program that almost no one knows about. "It's not one-size-fits-all," says Alex Rice, CTO and co-founder of HackerOne and former head of product security at Facebook. HackerOne—which by late 2015 had coordinated some 2,000 hackers who made over 15,000 bug fixes for more than $5 million in prize money—runs 100 public bug-bounty programs and more than 400 private ones. So how do you know if private is the way to go?

Though recruiting lots of eyeballs can mean more varied and creative hacking, if you're taking your first dip in the bug-bounty pond, Rice recommends starting with an invitation-only pilot, which involves asking a limited number of researchers to hack their hearts out in search of specific vulnerabilities. "If you invite five researchers and they find dozens of bugs in the first 24 hours, you probably don't want to go public," says Rice. "But when you reach a point at which the tempo has slowed and you open it to the whole internet, you'll have so much confidence."

$100,000
Microsoft awarded its first-ever six-figure bounty in 2013 to U.K.-based James Forshaw for reporting a bug that worked around security protections in Windows 8.1.

$150,000
When New Jersey-raised George Hotz hacked into Google's Chrome operating system in 2014, Google gave him its highest individual bounty to date—and a job.

One million miles
Last July, United Airlines gave Florida researcher Jordan Wiens not moolah but megamiles for finding a bug that could help someone take over a remote computer.

Fresh, Healthy Lunches for Little Foodies

Butter Beans serves a niche that couldn't access school lunches before

BELINDA DiGiambattista didn't like what her 2-year-old son was eating for lunch at his Brooklyn, New York, day care center. It was a weekly rotation of the same, not-so-interesting stuff: mac and cheese, chicken fingers, and fish sticks. "It wasn't bad food," she recalls. "But it was boring." DiGiambattista got inspired, and in February 2008, after being laid off from her product strategist job, she used $50,000 of savings and, with a co-founder who is no longer with the company, launched Butter Beans Kitchen.

The company focuses on bringing nutritious, balanced, kid-friendly lunches to small and medium-size private and charter schools in New York City. DiGiambattista, 41, pitches her company to school administrators as a way to solve two challenges she says all schools face: "satisfying parents and meeting budgets."

A LESSON IN EATING RIGHT

By serving a wide variety of whole, healthy foods, Butter Beans hopes to help kids teach their parents about nutrition.

Because a school lunch program is expensive and complicated to set up, and most full-service food programs won't deal with smaller schools, Butter Beans hits a perfect niche market. Eight years in, it feeds 2,000 children and teachers per day.

Lunches are prepared in the company's 2,500-square-foot kitchen in Queens. Each day, two vans deliver entrées (one meat, one vegetarian), grains and vegetables, sandwiches, and salad-bar staples to schools throughout the city. The next day, Butter Beans' cafeteria attendants heat up meals like antibiotic-free chicken Marbella and vegetable lasagna, and divvy it out, buffet style. Parents of participating private-school students pay an average of $7.50 per day (prior to Butter Beans, these private-school kids brought their lunch or bought it outside the school); at charter schools, for as little as $3.76 per kid, Butter Beans serves all students.

The company, No. 2,108 on the 2015 Inc. 5000, expects to earn $2.75 million in revenue this year. It also offers summer camps and cooking classes for children. While DiGiambattista had to clear some hurdles—"One parent complained that we weren't serving hot dogs; others didn't like the vegetable meatballs and wanted to know where the beef is," she says—she believes her business model has room to grow. "Society has not reached the tipping point of parents making healthy choices," she says. "But I've seen parents more concerned with making healthy choices since I started Butter Beans." —MICHAEL KAPLAN

JAMES WOJCIK/TRUNK ARCHIVE

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G	G	L	P	L	G	N	K	L	X	S	L	P	Q	D
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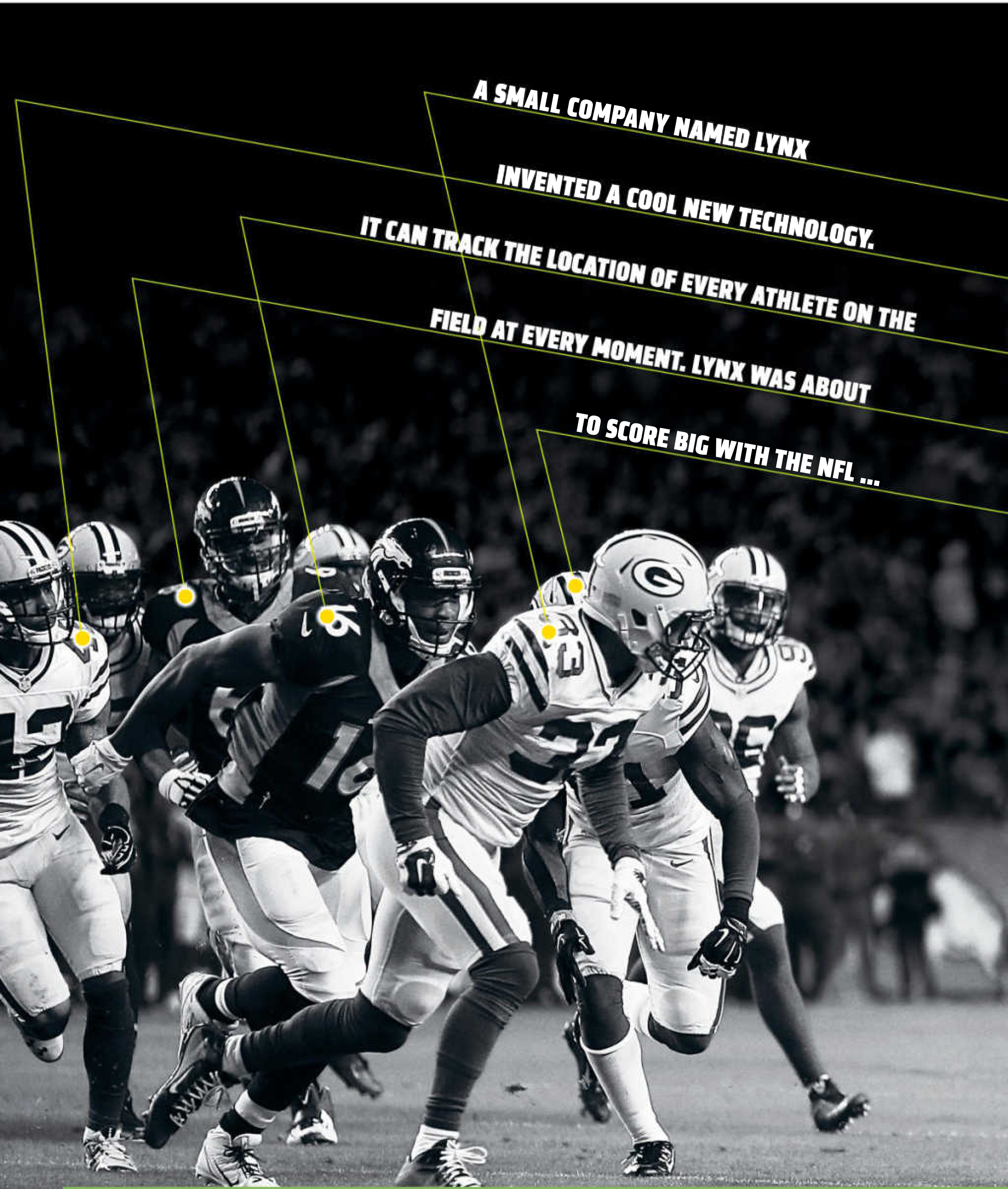
A SMALL COMPANY NAMED LYNX INVENTED A COOL NEW TECHNOLOGY. IT CAN TRACK THE LOCATION OF EVERY ATHLETE ON THE FIELD AT EVERY MOMENT. LYNX WAS ABOUT TO SCORE BIG WITH THE NFL ...

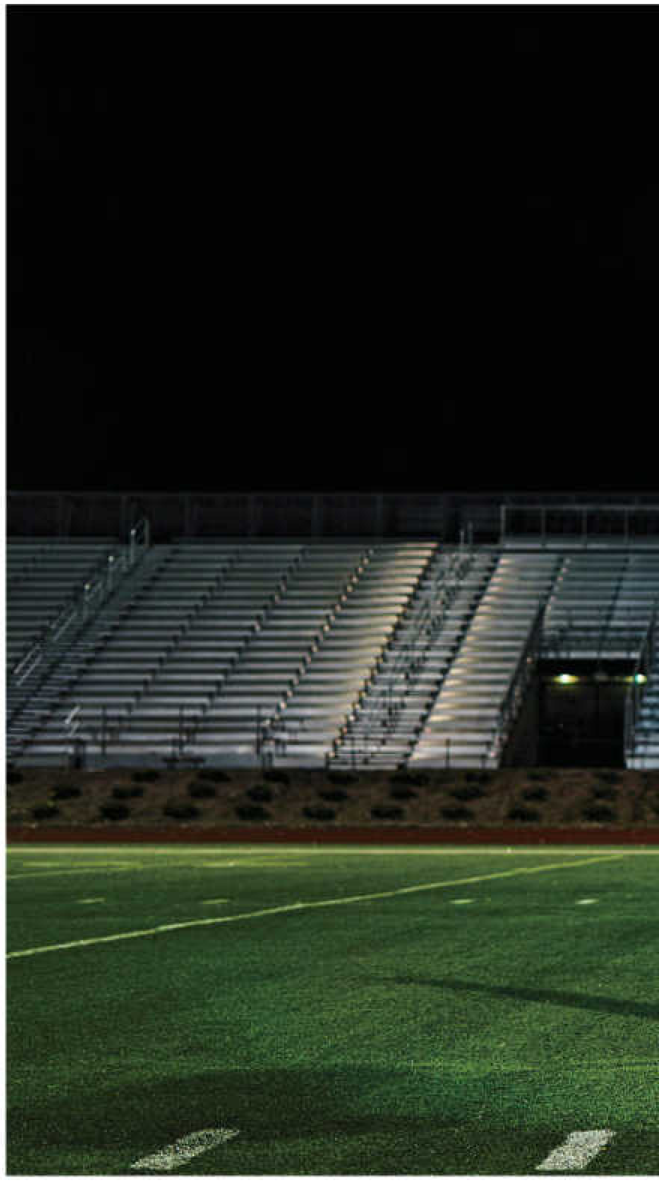


INTERCEPTED

... BUT A FUNNY THING HAPPENED ON THE WAY TO THE END ZONE

ONE ENTREPRENEUR LIVES HIS WORST NIGHTMARE

By DAVID WHITFORD



DOUG DeANGELIS was fresh out of college in 1988, living alone in a rented room in a Boston suburb, working at Honeywell Bull. The job came with a tuition benefit, which he was spending on graduate courses at MIT. Though not a full-time student, he managed to land a seat in a popular course for aspiring entrepreneurs called New Enterprises, offered by the Sloan School. His assignment: Come up with an idea, pitch it to your classmates, and see if you can persuade anyone to join your team.

DeAngelis had lots of ideas. He kept them in a folder he called "my folder of dreams." He had already seen enough of Honeywell to suspect that big corporations were where big ideas went to die. That folder was his escape plan. But DeAngelis was wary. He didn't like talking about his ideas, because he was afraid someone might steal them.

His best idea at the time involved a new kind of camera for capturing photo-finish images in track, cycling, horse-racing, and other sports with finish lines, a task more challenging than it sounds. The existing technology was cumbersome, unreliable, and slow. Sometimes race officials had to wait to call the winner until the prints came down from the press box on a clothesline. DeAngelis's concept was digital. It promised instant, accurate results.

His professor, the economist Eric von Hippel, thought that it was a terrific idea, and he believed that DeAngelis—both an athlete and a geek—was uniquely qualified to develop it. He also knew from experience that novices tend to put too much stock in the particulars of their ideas, which will likely change anyway, and too little stock in execution, which demands passion, knowledge, and commitment, qualities he observed in DeAngelis. "Don't worry," von Hippel told DeAngelis, who was still nervous about sharing. "No one gives a shit about your idea."

Or so DeAngelis remembers. "Your idea is your baby" are the words von Hippel chooses now. "Everybody loves their own baby best." The professor was correct. Not only did no one steal DeAngelis's idea; no one else even cared enough about it to join his team. Undeterred, DeAngelis plowed ahead in the spring of 1991. Eventually, he persuaded some smart people to help him (including von Hippel, who remains an adviser). In due time and with great effort, he brought a product to market, FinishLynx, and built a profitable $10 million

PREVIOUS SPREAD: JUSTIN EDMONDS/GETTY

EDGED OUT
DeAngelis is back to doing demos at high school football games. Lynx's former partner has the contract with the NFL.

"THE IP SYSTEM IN THIS COUNTRY IS BROKEN. A BIG COMPANY CAN PUSH PEOPLE AROUND AND DO WHAT IT WANTS." —DOUG DEANGELIS, FOUNDER, LYNX

company around it. Nearly 25 years later, his company, Lynx System Developers of Haverhill, Massachusetts, supplies state-of-the-art photo-finish setups for the Tour de France, the Head of the Charles Regatta, the Kentucky Derby, and the Indianapolis 500, among other marquee events.

But this story isn't over. Another chapter, still unfolding, is about another idea, one DeAngelis conceived and nurtured for more than a decade until it was almost ready to make its way into the world. IsoLynx is a sibling to FinishLynx but vastly more versatile and powerful. It's what the internet of things looks like when applied to the $1.5 trillion global sports industry. Think of it as a way to track assets that happen to be athletes: tagging them with transmitters; capturing their every movement on the field; producing reams of data; and generating next-gen stats for coaches, fans, and fantasy players, plus cool graphics for TV. Thanks to DeAngelis, the NFL is an enthusiastic early adopter. A version of the technology will be on full display at this year's Super Bowl.

Yet Lynx was not chosen as the Official On-Field Player-Tracking Provider of the NFL. That designation went to Lynx's former trusted partner, Zebra Technologies of Lincolnshire, Illinois, the villain in an 83-page complaint Lynx filed last summer in the U.S. District Court in Massachusetts accusing the $4 billion public company of engaging "in calculated and concerted actions to wrongfully obtain and claim as its own what rightfully belongs to Lynx." Maybe now you can taste the bile in

PHOTOGRAPHS BY **CHRISTOPHER CHURCHILL**

DeAngelis's throat. (The NFL would not comment for this article. Zebra rebutted Lynx's claims through emails but declined requests to make its executives available for interviews.)

DeAngelis's story speaks to a primal entrepreneurial fear: the fear of being snookered, of coming up with an idea, developing a concept, taking it from prototype to finished product, lining up customers—only to have a bigger, richer rival steal your reward. Particularly cruel for DeAngelis is that he's living his early nightmare. This time, though, it's not just an idea he's trying to protect; it's the fully realized fruit of his idea, endowed with valuable IP and set to launch in a market he pioneered. But as his case perfectly elucidates, it's not the idea others covet so much as what you make of it. An idea is a spark. No one wants your spark. They want your flame.

FRIDAY NIGHT LIGHTS in Andover, Massachusetts. The Golden Warriors vs. the visiting Chelmsford Lions. Up here in the auxiliary press box, the only weapon against the damp October cold is a space heater, and the cold is winning. DeAngelis is present, hands in pockets, bouncing lightly from side to side. At 49, he's built like a runner, elfin and contained, with squinty brown eyes, thick gray hair, a salt beard and a pepper mustache. Also there are Ed Evansen, 55, Lynx's voluble CEO, the Santa to DeAngelis's elf; and Brian Rhodes, an IsoLynx engineer, who's hunched down over a keyboard in the corner.

Nobody's watching the game. Everyone's focused instead on a digital representation of the game, unfolding on Rhodes's computer screen. It's a demo, nothing fancy. Not all the players are tagged (coin-size transmitters, one beneath each shoulder pad), and the graphics are crude—more Space Invaders than Call of Duty. But it's enough to convey a sense of the system's capabilities, and the engineering that went into it. The X's glide smoothly across the display, in perfect concert with the action on the field; click on one and the IsoLynx camera follows, locked in on that player step for step. When the action is still, so are the X's—the image is "quiet," a technological feat that Evansen says took years to perfect.

It was in this same press box in 2011 that a visiting delegation of NFL executives got their first glimpse of what IsoLynx could do. Impressed, they requested a full trial under game conditions at the East-West Shrine Game in Tampa, in early 2012. That test did not go as well—too much signal interference from wireless TV cameras and tens of thousands of cell phones in the stands. But Lynx engineers worked through the problem, and by the spring of 2013, DeAngelis and his team were scrambling to get ready for a full, leaguewide rollout, tentatively planned for the fall. "The golden ring," as Evansen describes the coveted customer, was almost in their grasp.

DEANGELIS GREW UP in tiny Orrington, Maine, the youngest of five, the family digit head. He's a tinkerer, a problem solver. Not a businessman, unless you count selling summer blueberries as a kid, but he latched on to computers early and talked his sixth-grade principal into buying a TRS-80. It was for the school, technically, but DeAngelis was the only one who played with it.

He went out for cross country during his freshman year at Brewer High. He made the team but didn't contribute. "I was awful, really bad," he says, because he didn't try hard. DeAngelis gets it now, but that insight had to wait until summer after sophomore year, when, bored and lonely, he went running every day. The more he ran, the better he got. Effort equals achievement, the fundamental equation. A useful lesson for athletes and entrepreneurs.

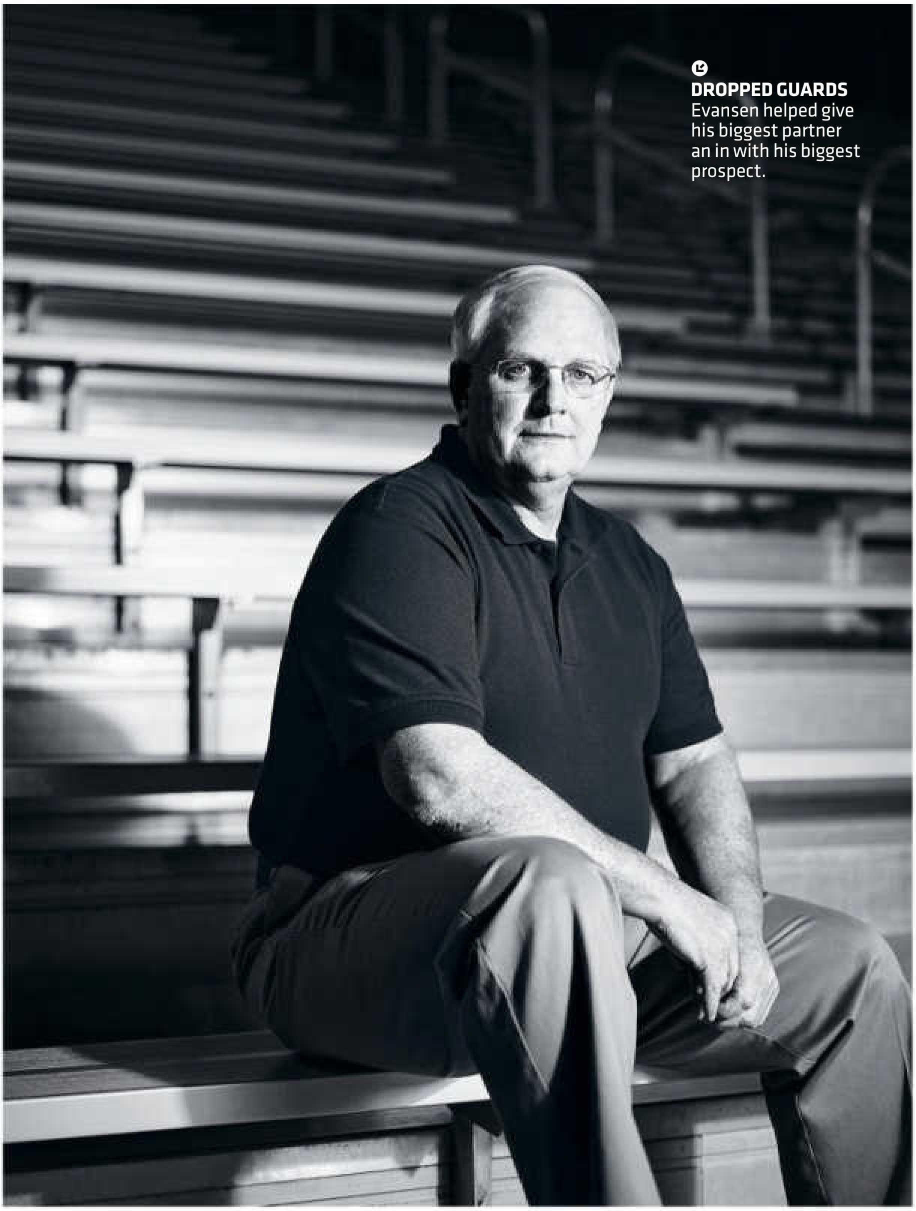
At the University of Maine, DeAngelis studied electrical engineering on a full academic scholarship. He walked on to the track team that winter and won his first race ever—at any distance, on any level—in the half mile. "It gave me a whole new identity," he says now. He wasn't just a digit head anymore; he was also a college athlete. And when graduation day arrived, and he was honored as No. 2 in his class, his teammates were shocked: "We didn't know you were smart!"

After DeAngelis moved to Boston, he kept up the pace. One weekend at a meet in Dedham, Massachusetts, the race director asked him for a favor: Could he handle the photo-finish camera in the 5K? DeAngelis was willing, but the equipment was not. He got precise results for the top three or four finishers but not the rest. Sorry, he said; he didn't know what happened. Yet the race director wasn't mad. To be expected, he explained. Sometimes the film is too short. Sometimes it jams. Sometimes the optical pickup misses the flash of the starter's gun. Not perfect; good enough.

But not good enough for DeAngelis. He thought hard on the problem. Soon he became the photo-finish expert in Boston. Between shifts at Honeywell, he started working on a digital alternative. There were no digital cameras on the market yet; the closest thing was a fax machine. The technology was available, though. All that was lacking was someone with DeAngelis's specific attributes—tech skills, direct experience with the problem, and a deep understanding of the customer. "Because he was one!" says von Hippel.

DEANGELIS WENT TO WORK. He pulled in a coder from MIT to do the interface and hired a kid from the MIT robotics lab to build the hardware. DeAngelis took care of the firmware. He had $30,000, thanks to his free ride at the University of Maine—enough to get started. But he got a scare when he learned that he wasn't the only one to have this idea. Seiko had tried out a similar product at the 1991 World Championships in Athletics in Tokyo. DeAngelis was crushed. "A disaster of epic proportions," he was sure. But von Hippel was ecstatic. If Seiko was doing it, it was real. Proof of concept, the best news.

"You might want to consider doing this," one professor told DeAngelis. For real—not as a thesis project. So he put the degree on hold and took his prototype to the Indoor Track & Field Championships at New York's Madison Square Garden, in February 1992. He drove from Boston, rented a conference room. In walked Tom Jennings, a big-time agent, the guy who did more than anyone else to professionalize track and field in the U.S., and Howard Schmertz, the direc-



DROPPED GUARDS
Evansen helped give his biggest partner an in with his biggest prospect.

tor of the Millrose Games. After the demo, Jennings handed him a check for $1,000. "When can I get mine?" he said.

DeAngelis was in business. Not a huge market, but not a lot of competition. FinishLynx quickly grabbed the lead and has held it ever since. He kept the focus tight. "If we do the whole solution," DeAngelis figured—meaning not just the camera but also the scoreboard, the display, everything—"we'll always be coming up against things the customers already like." So stick to the part you know well, and let your partners do the rest.

He also insisted on getting paid for his technology. Believe it or not, that's rare in DeAngelis's world. Bose pays the NFL at least $50 million a year for the privilege of supplying all its coaches with headsets, and Microsoft is paying $400 million over five years to keep them in tablets. It's a strange way to do business, writing off potential big customers as marketing expenses. Lynx wanted no part of it. You'll never see the FinishLynx name at the Tour de France. The Tour buys timing tech from Lynx, but sells timing rights to the highest bidder. DeAngelis charged the going rate for film cameras, and used his performance advantage to dictate terms. That got him a 50 percent down payment from his first dozen customers, including Louisiana State University and the U.S. Olympic Training Center in Lake Placid, New York, covering his initial production run.

Do what you do best and partner with others for the rest; don't give your product away; trust the market to reward superior value—Lynx would go a long way with that simple philosophy. Until it met Zebra.

"ALL OF A SUDDEN, OUT OF NOWHERE, A FRIENDLY CALL FROM MISS WONDERFUL, AND THEN, ALL OF A SUDDEN, A TERMINATION."
—ED EVANSEN, CEO, LYNX

THIS WAS THE PROBLEM with FinishLynx: cool technology, yes; certain market, yes; but very limited application. Useful only on the day of competition. IsoLynx was DeAngelis's plan to break out of that box. "It takes us to sports that don't have finish lines," he says, "and it takes us to all week long. But it does that in a way that retains our market relationships."

Development began in 2004. Rather than start from scratch, Lynx bought an off-the-shelf system that tracks objects tagged with little radio transmitters from a company called Multispectral Solutions. The technology had been around for years. Ports use it to keep track of shipping containers, and farmers to keep track of cows. Lynx's challenge was to make the system work for sprinting, colliding athletes.

Four years later, Lynx was getting close to a prototype when Zebra swooped in and bought Multispectral. Zebra made the world's first barcode printer in 1982, and lately was developing an asset-tracking business, but it had no back-

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(1)Gravity Payments CEO, Dan Price, interacts with attendees; (2)The Principal Financial Group hosted Kind Bar CEO, Daniel Lubetzky in their booth; (3)Chase for Business sponsored the Old Hollywood-themed Conference party; (4)*Shark Tank's* Marcus Lemonis poses for selfies with Conference attendees; (5)KPMG hosted Impact 50 honorees at a celebratory lunch. KPMG's Brian Hughes and *Inc.*'s Kimberly Weisul congratulate Pinnacle Technologies CEO, Nina Vaca; (6)Karen Jones, Executive Vice President and CMO for Ryder System Inc., hosted a private lunch featuring Ryder clients discussing how they are *Making Commerce Flow* through outsourcing; (7)The new Mercedes-Benz® Metris Van was showcased throughout the Conference

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ground in sports. Even so, Lynx and Zebra were now partners. Relations were fine for the longest time. Under various nondisclosure agreements, Lynx engineers worked closely with their counterparts at Zebra, perfecting the technology, until few secrets remained between them.

Lynx could have been more careful. The company had spent so many years trolling in small, overlooked markets that it failed to see how quickly the market for sports tracking had matured. "We miscalculated the size of the opportunity we were helping our partner with," DeAngelis says now. His focus at this critical moment was elsewhere—on courting the customer he coveted most. "The NFL is using them" is how DeAngelis was scripting the decision-making tree for his future customers. "Therefore I'm gonna buy them." Imagine the world market for soccer.

The embarrassment at the East-West Shrine Game was a serious setback. Zebra's suggested fix was to remove the "interferers" from the venue—the cameras, the cell phones. Not an option. Instead, according to the complaint, Lynx engineered a proprietary fix that allowed the faint signals of the player tags to be detected amid all the radio-frequency interference common in NFL stadiums on game day. Testing and development continued throughout the summer and into the fall, culminating in what the complaint describes as a "hugely successful" demonstration at a Patriots-Dolphins game in Miami on December 2, 2012—the first in which all players on both teams were tagged.

The NFL was not the only party paying extra close attention now. Three weeks later, on December 23, Lynx performed a final test, at a Bills-Dolphins game. This time Zebra sent a delegation of three, including lead engineer Belinda Turner. They sat with Evansen and two NFL executives in the control room, monitoring the system throughout the game. Turner was "extremely impressed" at how well it worked, according to Lynx's attorney, David Sheikh. In retrospect, it was a critical moment. The spark had caught, and the flame was rising.

JANUARY 11, 2013. Big meeting at Zebra's East Coast office in Germantown, Maryland. Fifteen people in the room: DeAngelis and Evansen; also Mike Jakob from Sportvision, IsoLynx's graphics partner, best known for inventing the virtual yellow first-down line; a large posse from Zebra, led by new division VP Jill Stelfox; and five NFL bigwigs. Decision makers all, together for the first time to discuss the imminent deployment of the IsoLynx system.

Or so DeAngelis naively assumed. Later, he and Evansen would reconsider the wisdom of bringing its biggest partner, Zebra, together with its biggest potential customer, the NFL. But Lynx had been courting the NFL for years—testing at the league's request, refining to meet league specs, and sharing proprietary IP (protected by a nondisclosure agreement). True, Lynx still had not closed the deal with the NFL—a fact that would later haunt DeAngelis—but time was short. "We were totally convinced that we were going to have to install at all 31 stadiums between then and when the teams started practicing" for the 2013 season,

HAVE A PRECIOUS IDEA? LEARN TO DEFEND IT

Trying to divine lessons for an entrepreneur based on what happened to Lynx, says CEO Ed Evansen, "would be like telling a person on a small island how to prepare for a tsunami." Founder Doug DeAngelis mostly agrees: "If you spent your whole career preparing for something this far outside the norm, you'd never get anywhere." But startups and small companies looking to partner with bigger firms would do well to consider the following.

PATENT EARLY AND OFTEN Evansen insists Lynx did so, "judiciously and expeditiously." But the fact remains, Zebra now holds several patents on IP that Lynx asserts it developed. Lynx might have avoided that fight with more aggressive patenting.

PROTECT YOUR SUPPLY CHAIN Lynx ran a high risk when it chose to buy critical technology from a potential competitor rather than make it on its own. Nothing wrong with that—if you protect yourself with a long-term contract or develop alternative sources.

KNOW YOUR MARKET Lynx was slow to realize just how much its once-sleepy niche had matured, and how attractive it might now be to others. In retrospect, says DeAngelis, "we were offering our partner entrée into a very significant market."

KEEP YOUR CUSTOMERS CLOSE, AND YOUR PARTNERS CLOSER DeAngelis felt sandbagged when his biggest customer and his most important partner decided they didn't need little Lynx anymore. Take care whom you invite to critical meetings, especially before you ink a deal.

DON'T KID YOURSELF What's your creation worth? Only, always, and forever this: what somebody else is willing to pay for it. That calculation changed dramatically for Lynx the moment Zebra realized it had two options going forward, and one no longer involved Lynx.

ISTOCK

DeAngelis says now. Evansen adds: “As the NFL told me a couple of times, ‘We kick off at 1:00, with or without you.’ ”

How’d that meeting go? All these months later, Evansen sighs, pauses, and looks at DeAngelis. “It was kind of like an NFL and Zebra lovefest,” he says finally. “If you’ve ever been to a party where it’s clear that these people want to go off and hang out together, and you’re kind of in the way—I don’t know. I can’t put a word on it, but it was a sense, right? We were no longer ... ,” and his voice trails off.

Then came a series of confusing but ominous maneuvers by Zebra. A month after the NFL meeting, Evansen’s phone rang back at the Haverhill office. It was Stelfox, calling from Zebra to convey Zebra’s interest in acquiring IsoLynx.

Unexpected, but hardly shocking. Lynx had been fending off suitors for years. “You don’t want to sell your business until you’ve proven the value in what you’re doing,” says DeAngelis. Any founder in his position might have felt the same, especially with the payoff in sight. Lynx went through the motions of countering Zebra’s offer (neither party would disclose numbers), but the deal was never going to happen. “We gave them a sense of how far off they were,” says DeAngelis, shrugging.

Dennis Ceru, founder of the CEOs Group executive leadership program and an adjunct professor at Babson College, won’t accuse Lynx of making a fatal mistake, but, he says, “it’s not at all uncommon for entrepreneurs to have a conception of value that’s not correlated to the market value.” They also ignore the nuisance factor, which comes into play when a potential buyer is big enough to enter the market without you. “If buying you is more of a nuisance,” Ceru warns, “the value calculation changes,” to your disadvantage.

Zebra’s response to Lynx’s rebuttal was indeed swift: a hostile email from Stelfox on March 8, saying that Zebra’s review of IsoLynx’s collaboration agreement with Sportvision, Lynx’s graphics partner, “can be read to evidence” that Lynx had disclosed confidential Zebra technology to Sportvision. In other words: You spilled our secrets. Which constitutes a breach of our existing agreement, the letter continued. Which means we are no longer bound by its terms. So long, Lynx.

Or maybe not. Three days later, according to the Lynx complaint, Stelfox called Evansen again to say, essentially, we’re still friends—that her March 8 email was part of a plan to force a termination of the IsoLynx-Sportvision collaboration agreement, clearing the way for Zebra and Lynx to work with the NFL on their own. (Sportvision declined to comment.)

Evansen summarizes: “Out of nowhere, a friendly call from Miss Wonderful,” offering to buy Lynx, “and then, all of a sudden, a termination. And then another call that says, ‘Oh, don’t worry, it’s not what you think it means.’ ” Evansen says he told Stelfox that Lynx wanted no part of “Zebra’s proposed subterfuge,” and ended the call.

Frantic efforts by Lynx over the next few weeks to repair the relationship with Zebra failed. On April 18, Stelfox sent a final

letter to Evansen, formally terminating the Zebra-Lynx relationship. Without access to Zebra's components, IsoLynx could not deploy. And the golden ring slipped from Lynx's grasp.

LAWSUITS IN TECHNOLOGY are an unfortunate part of doing business," Zebra spokeswoman Therese Van Ryne wrote in an email to *Inc.* "[I]t is Zebra's strong belief that Lynx's claims are without merit." This particular lawsuit may not be resolved for years. Zebra has filed a motion to dismiss Lynx's suit (Lynx has moved to quash) and filed a lawsuit in California seeking a judgment that it did none of the wrongful acts alleged by Lynx. (Lynx says it will move to dismiss that suit.) If this story seems to favor Lynx's side, that doesn't mean Lynx will prevail in court.

While Zebra has yet to respond substantively to Lynx's complaint, Van Ryne did provide a sketch of Zebra's defense. She wrote that after the January 2013 meeting with the NFL, Zebra was surprised to learn of the extent of Lynx's agreement with Sportvision; that in light of that agreement, Zebra's partnership with Lynx was "not feasible"; and that after Zebra and Lynx had parted ways, Zebra "independently developed" its own player-tracking technology, MotionWorks, which later prevailed in an open competition run by the NFL.

Lynx strenuously refutes the claim that Zebra developed MotionWorks on its own. "It will be fun seeing them put that into longhand in front of a court of law," says Evansen. Meanwhile, Lynx will continue perfecting IsoLynx, this time using its own, internally developed electronic tags. The company still believes there's a big market for tracking technology.

Unfortunately for Lynx, Zebra understands that now too; and what is more, exactly as Lynx had hoped to do, Zebra is using the NFL—"a great customer of ours," Zebra CEO Anders Gustafsson told an interviewer for TheStreet TV in November—to exploit the potential. On November 19, IBM formed a consortium to deliver data to teams and multimedia thrills to fans in stadiums around the world. Among the founding members: Zebra Technologies.

HALFTIME IN ANDOVER. The demo's done, the game's a rout, and the space heater is falling further behind. Time to go home. This whole saga, DeAngelis observes, reminds him of the internet bubble. "People were getting absurdly wealthy without actually adding real value," he says. "From my perspective, in an efficient capitalist system, you get back the value you add in."

Value is money. DeAngelis wants the payoff. But just as much, he wants credit—for the spark he and Evansen kindled, the flame it became, and the blaze now burning brightly, far from the drafty press box at Andover High. "It would be nice," DeAngelis says finally, "if the market understood."

DAVID WHITFORD *is an* Inc. *editor-at-large.*

Killing the 800 Number

LivePerson's web chat lets companies reach out to their customers online

As told to LIZ WELCH

WHEN ROBERT LoCASCIO STARTED surfing the internet back in 1993, he thought, "This is awesome—but where are the people?" They were chatting in forums with one another, but there was no connection between consumers and companies that were selling things or services online; 800 numbers owned that role. LoCascio thought that offering companies a chat platform would let them better manage the relationship. Now, New York City-based LivePerson has revenue of $250 million and 1,000 employees in eight countries, giving heft to LoCascio's theory that no one wants to be put on hold.

The Web's Next Wave

Everyone thought the internet digitized the relationship between brand and consumer. But when they communicate, it still goes offline to voice, and that's not the way the world is today. We're riding the internet's third wave. The first was organizing the world's information through search—i.e., Google. The second was connecting people with people, so Facebook. The third is how we connect with businesses.

My first idea, in 1995, was for companies to bring their customers together in a community. Chatrooms existed online, but the business application did not. Xerox was my first customer, and within a couple of months they said, "We don't want our customers talking to one another, because it's a bitch session." But Xerox liked the chat capability, and being able to connect with customers and do support online. LivePerson launched in 1997 focused entirely on that.

Our company went public in April 2000, and then the dot-com bubble burst. We had negative gross margins and $20 million in infrastructure. An Israeli firm was making better software with cheaper implementation, so we bought it in late 2000, restructured, and moved all our customers onto that platform and our tech operations to Israel. That saved the company.

When you're on a website, picking up the phone to make a call is a very disconnected experience. Back in the late '90s, you had to log off because of dial-up internet. Even today, 90 percent of interactions come through voice. A credit card or any bill has an 800 number to call. That equates to 270 billion phone calls every year. It dwarfs the number of web interactions. That is changing.

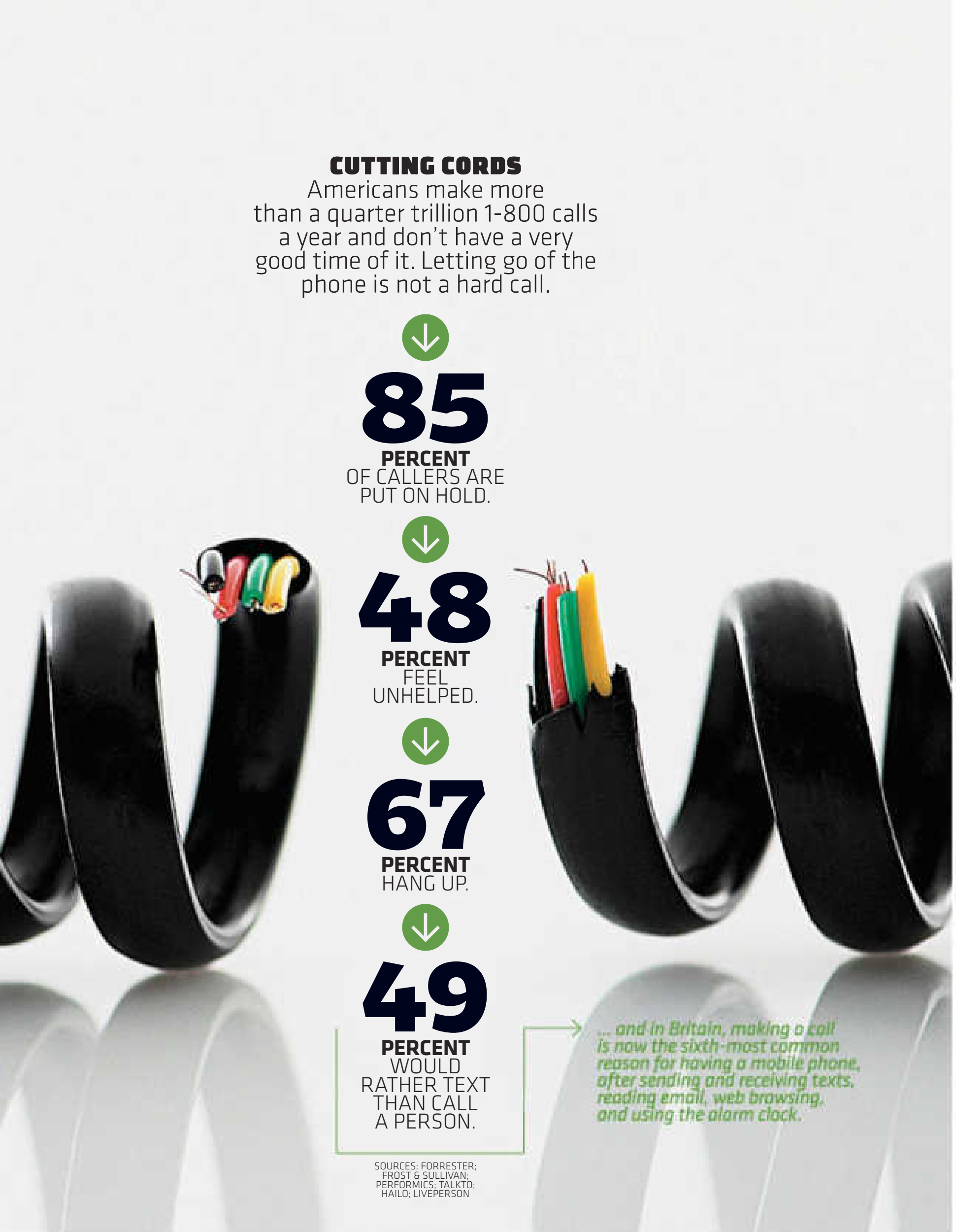
MOVING ON
LivePerson founder and CEO Robert LoCascio says he will miss making 1-800 calls as much as he misses his pager and his goatee.

We started in post-sales support, making sure the customer is satisfied. The room for real innovation is on the sales side. We put an open-chat button next to the shopping cart and found that some people still clicked on it with a customer support issue. So then we thought, "How can you know by their behavior on a website when people want to buy?" That's where we want the chat button to appear. In 2002, we launched proactive chat, which pops open a window.

Setting the Hook

We have invested a lot in a series of algorithms that look at each customer and his or her connection with each business. If someone has been idle on a webpage for two minutes, that doesn't necessarily mean the person wants to be engaged by an agent. There are so many more behavioral signs that need to be factored in, such as, "What's in her cart? Has she been here before?" She may do

SPREAD FROM LEFT: COURTESY COMPANY; MONALYN GRACIA/CORBIS



20 different things before she buys, so we look at all of those layers and process the data in real time to determine who best to engage, and at what moment someone might want help. When users trigger certain things, they get invited to chat. Twenty-five percent of the time we are able to turn that behavior into a sale. That took our business from $20 million to $100 million within five years. Seventy percent of our revenue today is in this program.

We get paid on a per-interaction basis. If we send an invitation and a consumer accepts and starts a conversation, that's an interaction. If it's sales, we get more, and service, we get less.

Going Mobile

In 2015, we added mobile messaging capabilities. Consumers have moved on. They're not using voice to communicate with friends and family—they're texting or messaging. I don't think web chat will be around four or five years from now. Why would you go on a website and chat? Wouldn't you just message on a phone? Why can't we do that with business? In another five years, we can take calls out entirely and message instead.

Through mobile messaging, we can pinpoint algorithms toward ongoing relationships, including one that says, "Say happy birthday." Our algorithms for both web and mobile can also tell us that the behavior of a certain customer shows he needs even more touch, or less touch, or a certain type of touch.

With voice, a customer calls in, the company representative handles it, and the customer leaves. With LivePerson, those interactions are all recorded and organized. So a business can see, "OK, I haven't interacted with this person in three months. I'll just say hello or make sure his service is working smoothly or suggest that he consider a new product based on past purchases." Let's say you have telecom service, and your bill is running up because you're traveling overseas. The company can reach out and message, "What's going on?" Consumers can be connected with the business at all times without ever having to be put on hold. Instead of calling my bank, I can send a message that says, "Hey, I'm having a problem with my credit card. Can you check it out and get back to me?" That changes the interaction from a transaction to a connected experience.

Business in Your Pocket

When we first went live, we saw that when agents didn't manage their chats well, we'd get cancellations. How do you measure the relationship between the brand, the agent, and the consumer at all times? So we developed a "meaningful connection score." We patented it from our web chat tools, then built it into the mobile messaging platform and now train customers how best to use it.

Every month, an average of 30 million people chat with our 18,000 customers. During the holiday season, that number can go to 60 million. About 3 percent of that is going through messaging, but messaging is growing at 100 percent a quarter. Business can be in the consumer's pocket, and that's a radical shift.

GET REAL

Jason Fried

Fight the Fear

Sometimes the most important thing about a product revamp is what you take out

IN PREPARATION FOR building Basecamp 3, we did a lot of customer research. Some of it took the shape of formal interviews, some of it involved casual conversations. Some information we gleaned from customer service interactions, and some came from surveys.

Through it all, one thing became very clear: We could make major improvements for a certain kind of customer if we concentrated on elimination rather than addition.

A large portion of our customer base consists of client services firms. These include advertising, marketing, and design agencies; consultancies; dev shops; accountants, lawyers, and professional services firms. People who work closely with their clients.

This is, after all, why we built Basecamp. We started out as a web-design firm, and needed a more organized, more professional way to share work with clients, get their feedback and approvals on the record, and make progress as partners, not as adversaries. We created Basecamp for ourselves.

But, it turns out, the client-firm relationship is often a delicate one. There's a lot of tiptoeing around, with people at the firm afraid to say certain things in front of the client, the client afraid to give certain kinds of feedback, and everyone a little leery of the other side's opinions. When time, money, and results are on the line, it's easy for tension to build.

And that was the breakthrough. That's the big insight from all of our customer research. People who use Basecamp with clients want it to help eliminate the fear that characterizes the client-firm relationship. It wasn't about adding this or that feature. It was about removing something. Eureka!

We dug in deeper. We asked a lot of questions. We listened a lot. And the picture came into focus.

Traditionally, tools like Basecamp combine an internal repository for work in progress with a mechanism to share work with clients and get their feedback. Makes sense—you want to keep it all in the same place, since it's all related to the same work. The problem was that people weren't sure what clients could see. Could they see work that wasn't ready to show? Could they see internal debates about feedback they provided? Might they see a negative comment someone on the inside made about them?

As a remedy, previous versions of Basecamp gave people a box they could check to hide something from the client. Problem was, the box was too easy to miss. You forget to check that box, the client sees something you'd rather keep to yourself, and all hell can break loose. Thousands of dollars could be at stake.

So, armed with this insight, we completely redesigned the way clients and firms work together in Basecamp 3. We came up with something we call the Clientside.

Imagine a theater. In the front of the house, the audience enjoys a polished performance. Backstage, the actors and crew are frantically getting ready for the next scene. The audience never sees that chaos.

In Basecamp 3, we mimic that structure. The stuff your team can see and the stuff clients can see are in two separate places in the app. It's impossible for clients to access anything they aren't supposed to. They get to watch the show, but not what goes into creating the show.

Now teams don't need to watch their every step. They can be loose and casual when talking among themselves about clients and work in progress. And when it's time to make a formal presentation, they can switch over to the Clientside, where they know they're talking to a client. The distinction is clear. The fear and anxiety are gone. And they'll never again have to worry about the client seeing backstage.

Jason Fried is co-founder of Basecamp (formerly 37signals), a Chicago-based software company.

JEFF SCIORTINO

UNIQUE CONCEPTS BREAK NEW FRANCHISING GROUND

by Mark Henricks

Investing in a franchise is best approached systematically. Before signing up to join a system, would-be entrepreneurs are advised to evaluate complex and slippery factors ranging from their own financial capacity and career objectives to the franchiser's training opportunities and brand strength. But one important element of a franchise concept is relatively easy to determine. That is, is it new? Pioneering concepts face fewer competitors and often enjoy fast-growing markets, so quality of innovation is a key concern when evaluating franchise investment.

Bricks 4 Kidz of St. Augustine, Florida, has the best of both worlds, with a business that is at once unique and innovative and which also draws on the time-tested strength of a global brand icon. Franchisees of the concept, one of several from parent company Creative Learning Corporation, provide parents and children with opportunities to learn valuable concepts by building and playing with LEGO Bricks.

The company engages kids in learning fundamentals of science, technology, engineering, and mathematics (STEM) with the help of proprietary model plans created by engineers and architects. Kids ages 3 and up learn through activities presented as after-school enrichment classes, week-long summer camps, birthday parties, in-school workshops, and more.

In addition to learning about engineering and architecture principles, Bricks 4 Kidz participants develop social skills including teamwork and communication, enhance their own self-esteem, and improve motor skills. The classes employ multiple learning modalities—visual, kinesthetic, interpersonal, and auditory—and teach kids valuable classroom skills such as organization and following directions.

And it's not only the kids who love Bricks 4 Kidz. Parents and franchisees also enjoy working with the well-loved building products. "Our choice to use LEGO Bricks as the building tool is extremely popular with multi-generational entrepreneurs," says Michelle Cote, founder.

The fact that Bricks 4 Kidz is a mobile business opportunity with low overhead and superior flexibility is a big attraction as well. "Our franchisees purchase territories and work within those territories at various elementary schools and community centers," Cote explains. "The ability for customers to find classes and camps in more than 700 locations continues to draw more families."

Sew Fun Studios is another Creative Learning Corporation concept that exemplifies thinking outside the box. The company's franchisees teach principles of sewing and design through classes, camps, and parties.

Sew Fun Studios puts on programs after school, during school, and on holidays. They can be included as part of birthday and other parties, incorporated into special events, and be extended for as long as a week. They are designed to be part of the curriculum for home schoolers as well as Girl Scout, Boy Scout, and Y guides programs.

As mobile business owners, Sew Fun Studios franchisees can keep their overhead and start-up costs low while retaining the flexibility of working out of a variety of locations. By teaching and celebrating sewing and design, franchisees help kids celebrate sewing as a contemporary, relevant, and creative activity.

The concept is a proven business model with a successful seven-year track record, and franchisees get comprehensive training in how to continue that success in their own businesses, as well as access to a complete creative curriculum. The company supplies custom software, a website, and a full marketing plan including marketing materials.

Among franchise concepts, few are in the same league as SealMaster. The Sandusky, Ohio, franchiser offers business opportunities to manufacture pavement sealer and distribute a full line of pavement maintenance products and equipment. "The industry is huge, and we're the only one-stop source for all things pavement maintenance. Our large, protected territories--some are entire states--offer exceptional income potential," says Rick Simon, director of franchise operations.

SealMaster franchisees sell to local, state, and federal public works agencies, pavement maintenance contractors, and property managers and owners, among others. "Pavement will always require maintenance, and pavement is literally everywhere. SealMaster franchise owners can enjoy growth other concepts can't touch with a single unit," says Simon. For franchises operating five or more years, single-unit gross sales exceeded $5 million in the fiscal year that ended September 30.

With 34 franchised territories (two company owned), only about 15 SealMaster territories remain available in new markets. Resales will offer several more opportunities. "We have several owners looking forward to extremely comfortable retirements who'll be selling to enjoy the fruits of their labor," says Simon.

As these franchise concepts illustrate, despite a century of rapid development, new ideas are still coming to the world of franchising. For the would-be franchisee, innovation is a commodity in good supply.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EXIT INTERVIEW

Daniel Lubetzky

The founder and CEO of Kind Snacks sees public failure as just another chance to bulk up his entrepreneurial muscle

As told to **MARIA ASPAN** Photograph by **JEFF BROWN**

TRY, TRY AGAIN "I was so close to just walking away and going back to becoming an attorney," says Daniel Lubetzky, who wrote about his entrepreneurial struggles in *Do the Kind Thing*. "I'm so lucky that I gave it that one last shot—and then Kind finally took off."

What's the hardest lesson you've learned as an entrepreneur?
I can be my business's best friend and its best enemy. When I was starting my first company, PeaceWorks, I considered all of my energy net-positive—so I didn't filter it. I ended up distracting my team with hundreds of ideas, which was a recipe for overextension. In the consumer packaged-goods business, that may be the most common mistake—people launch a product, it does well, and then they have this urge to launch more and more and more products. And some are mediocre, which makes you vulnerable to competitors.

You were negotiating a big investment in Kind when your wife gave birth to your first child. How do you balance business and family?
This was the most financially important decision of my life; there was so much riding on it—and yet when our son arrived, I just disconnected. I had my baby in my arms, and that was everything to me. But I also had a great team that helped me, and my partners were very respectful. Nobody tried to change terms while I was distracted—and if anyone had, I would not have closed the deal. There are investors that try to do that, and you have to be really careful about getting in bed with those partners.

How did you recover after the FDA banned some Kind bars from using the "healthy" label?
You cannot call a serving of nuts healthy because of the fat content, and yet you can call sugary children's cereal healthy? So we were very introspective and said, "How did we miss this?" We changed those four labels, and now we have a petition for the FDA to update its regulations. You don't want to miss the opportunity that a crisis brings with it. Our company has been so blessed with so much growth; suddenly we have a challenge, and we need to embrace that and use that to build our entrepreneurial muscle.

SCAN THIS PAGE TO WATCH DANIEL LUBETZKY DISCUSS BUILDING A SOCIALLY MINDED BUSINESS. (See page 10 for details.) For a video interview with the Kind Snacks founder, go to inc.com/inclive.

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